

DO SMALL BUSINESS OWNERS CARE? PERCEPTIONS OF SMALL BUSINESSES OWNERS AND THEIR LITERACY

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ABSTRACT

The way that taxpayers interact with a tax system is complicated to understand. There is some evidence that the way taxpayers perceive the tax system can influence the way they interact with it. This is particularly important for small business owners ('SBOs'), as they can be central to the operation of their business. This article considers the perception of SBOs in relation to usefulness of their business records and financial statements and examines whether there is a relationship with the SBO's literacy in terms of business tax, financial statements, computer accounting software ('CAS') and their overall literacy. While there seems to be little relationship between perceptions and literacy, of all the literacies considered CAS literacy was at times the most significant.

Keywords: Tax compliance, literacy, perception, managerial benefit, small business

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I INTRODUCTION

There are arguments that tax compliance activity actually aids the management of a small business,¹ which if realised can theoretically go towards reducing the regressive nature of tax compliance costs.² Part of this argument is that if not for tax compliance, many small businesses may not have extensive business records.³ However, while there may be better records due to tax obligations, it is not clear to what extent these records are actually used by small business owners ('SBOs') to determine the financial health of their business. The reasons that these potential managerial benefits may not actually be fully realised might be due to several factors. For example, SBOs may have the perception that records created are just for legal obligations required by the relevant tax system and do not provide insights into the business performance. Alternatively, the records created for tax purposes are too old (historical) to be immediately useful. Also, the records created do not contain the business management information required to provide insight into business performance. Even when these businesses records have the ability to form the basis of financial statements, there may be the perception that financial records don't really assist a SBO to understand their business performance.⁴ A potential related factor to using these records may relate to the literacy of the SBO in terms of professional financial statements, business tax and/or computer accounting software ('CAS'). Without sufficient literacy in these areas, SBOs may not be able to fully understand the potential information in these records and statements.

Even when advisors are engaged by SBOs, advisors may be largely engaged for tax compliance, so the advisors themselves do not have the time, expertise, to advise on business performance. For example, a study in the context of New Zealand finds that tax advisors mostly failed to discuss any managerial benefits associated with the tax compliance activities of their small and medium clients.⁵ This can lead to concerns about whether advisors themselves will be active in reflecting on the business performance when completing tax reporting requirements.

Consequently, this research seeks to consider the perceptions of Australian SBOs in the service sector as to the usefulness of business and tax records in helping manage their business, as well as consider if these perceptions are related to one of four literacies considered of business tax, financial statements, CAS, and an aggregated overall literacy score.

¹ Philip Lignier, 'The managerial benefits of tax compliance perception by small business taxpayers' (2009) 7(2) *eJournal of Tax Research* 106.

² Philip Lignier and Chris Evans, 'The Rise and Rise of Tax Compliance Costs for the Small Business Sector in Australia' (2012) 27(3) *Australian Tax Forum* 615; Philip Lignier, Chris Evans and Binh Tran-Nam, 'Tangled Up in Tape: The Continuing Tax Compliance Plight of the Small and Medium Enterprise Business Sector' (2014) 29(2) *Australian Tax Forum* 217.

³ Philip Lignier, 'Measuring the managerial benefits of tax compliance: A fresh approach' (2009) 24(2) *Australian Tax Forum* 117.

⁴ Abdel K Halabi, Rowena Barrett and Robyn Dyt, 'Understanding Financial Information used to Assess Small Firm Performance' (2010) 7(2) *Qualitative Research in Accounting & Management* 163, 171. SBOs in Australia, eg, did not believe that financial reports reflect real business figures.

⁵ Sue Yong and Brett Freudenberg, 'Perceptions of Tax Compliance by SMEs and Tax Practitioners in New Zealand: A Divergent View?' (2020) (26) *New Zealand Journal of Taxation Law and Policy* 57, 76.

The reason for focusing on small businesses in the service sector,⁶ is their relative importance to the economy. In Australia, small businesses contribute 34.2% of the total private sector income of gross value added ('GVA'),⁷ and they make up 98% of all private sector businesses.⁸ Additionally, Australian small businesses employ 44.2% (4.94 million of 11.18 million) of all private sector employees.⁹ Particularly, small businesses in the service sector provide more than three-quarters of the economy's income¹⁰ and employ more than 87% of all Australian private sector employees. Further analysis suggests that small businesses make up a large part of the service sector. For example, small service sector businesses accounted for \$393 billion in income and employed 4,127,000 of the total service sector employment of 9,410,000.¹¹ Furthermore, in Australia, the service sector is growing faster than any other industry and currently accounts for three out of five of Australia's most globally significant industries.¹²

As part of this it is important to reflect upon the qualitative characteristics that are likely to be exhibited by small businesses, as these characteristics can aid to understand the challenges and opportunities that they have. Generally, small businesses are internally controlled and are funded with private equity; the owner is normally the majority equity holder and often the only individual deriving an income from the business activity.¹³ Other small business characteristics include centralised management with a short-range perspective; poor management skills; decision-making process being intuitive rather than based on detailed planning; SBOs having a strong influence in the decision-making process; with informal and inadequate planning and record keeping processes; as well as having a lack of technical knowledge and specialist staff.¹⁴ These qualitative factors highlight how leading and important the SBO can be to the operation of the small business. It is for this reason that this research focuses on the perception and literacy of SBOs as they are likely to be central to the business decisions being made.

⁶ In Australia, service is defined as an activity that delivers help, utility or care, an experience, information, or other intellectual content. Most of the activity is intangible rather than residing in any physical product: Australian Services Roundtable, Submission no 44 to the House Standing Committee on Economics, Finance and Public Administration, 'Inquiry into the Current and Future Directions of Australia's Service Industries' (November 2006).

⁷ Australian Bureau of Statistics, Australian Industry, 2018-19 (Catalogue No 8155.0, 29 March 2020) ('ABS 8155.0').

⁸ Australian Bureau of Statistics, Counts of Australian Businesses including Entries and Exits (Jun 2015 to Jun 2019) (Catalogue No 8165.0, 2 February 2020) ('ABS 8165.0').

⁹ Australian Bureau of Statistics (n 7).

¹⁰ Income for this research is reported as gross value Added ('GVA') as opposed to gross domestic product due to the focus of the research on the service industry.

¹¹ Department of Industry, Innovation, Science, Research and Tertiary Education, 'Australian Small Business Key Statistics and Analysis' (Report, December 2012).

¹² These include foreign students in tertiary education, international tourism expenditure and Australian investment fund assets: Australian Services Roundtable (n 6).

¹³ Rob MacGregor and Lejla Vrazalic, 'A Profile of Australian Regional SME Non-Adopters of E-Commerce' (2008) 16(1) *Small Enterprise Research* 27, 30-31.

¹⁴ This list is based on research that considered small and medium enterprises, which small businesses are a part of. It is suggested that these characteristics by their nature are relevant to small businesses: MacGregor and Vrazalic (n 13).

While qualitative features are important, for this research project, the term 'small businesses' incorporates those businesses identified by their quantitative measures by the Australian Taxation Office ('ATO') and the Australian Bureau of Statistics ('ABS') as being 'micro' and 'small'.¹⁵ Broadly, small businesses will be those with an annual turnover of \$10 million or less and a full-time workforce of 20 or fewer employees.

The remainder of the paper is structured as follows. Part II provides a broad summary of key literature concerning managerial benefits and perceptions. This is followed by Section 3 that presents relevant literacies for SBOs, followed by a summary of key findings in related studies presented in Part IV. Part V outlines the research methodology undertaken in the study including the demographics of the participants, which will be followed by the results in Part VI. Through the analysis of the results overall observations will be made, with limitations and future research being outlined in Part VII. Finally, Part VIII concludes the study.

II PERCEPTIONS AND LITERACY OF SBOs

Low comprehension has been seen as a consequence of the combination of limitations in SBOs' ability and perceptions.¹⁶ Previous research has suggested that understanding financial statements is important for small business decision making, business growth, and performance.¹⁷ For example, the information contained in reports can be extracted to evaluate profitability measures, cash flow, and ratio analysis.¹⁸ Research from Australia and the US has indicated that SBOs do not have a reasonable level of understanding of financial statements.¹⁹ Furthermore, owner's perception about the usefulness of financial reports could influence to what extent they use them.²⁰ For example, SBOs in Australia did not believe that financial reports reflect real business figures.²¹ In the US, SBOs suggested they are incapable of analysing the figures within financial statements so regard these as futile.²² It appears from these responses that financial statement literacy can inhibit SBOs from utilising important information to ascertain the financial position of their business.

An inter-related concept is cash flow management, as small business success can relate to this. Effective cash flow management practices consist of keeping financial accounts; maintaining a business plan and a cash budget; keeping records of revenue, expenses, creditor and debtor invoicing; and maintaining an inventory schedule.²³ Previous

¹⁵ Australian Bureau of Statistics (n 8); Australian Taxation Office, 'Taxation Statistics 2015-16' (27 April 2018) ('ATO Tax Stats 2015-16').

¹⁶ Arthur R DeThomas and William B Fredenberger, 'Accounting Needs of Very Small Business' (1985) 55(10) *The CPA Journal* 14, 18-19; Halabi, Barrett and Dyt (n 4).

¹⁷ DeThomas and Fredenberger (n 16) 21; Robyn Dyt and Abdel K Halabi, 'Empirical Evidence Examining the Accounting Information Systems and Accounting Reports of Small and Micro Business in Australia' (2007) 15(2) *Small Enterprise Research* 1, 5; Halabi, Barrett and Dyt (n 4), 167.

¹⁸ Dyt and Halabi (n 17).

¹⁹ DeThomas and Fredenberger (n 16); Halabi, Barrett and Dyt (n 4).

²⁰ DeThomas and Fredenberger (n 16) 18-19; Halabi, Barrett and Dyt (n 4).

²¹ Halabi, Barrett and Dyt (n 4) 171.

²² DeThomas and Fredenberger (n 16) 22-23.

²³ Alejandro Drexler, Greg Fischer and Antoinette Schoar, 'Keeping it simple: Financial literacy and rules of thumb' (2014) 6(2) *American Economic Journal: Applied Economics* 1, 13.

research in Australia and the United Kingdom have suggested that SBOs are not actively involved in systematic cash flow management practices.²⁴ While day-to-day recording of activities involving cash inflow and outflow may be undertaken, the process involved in receiving and making payment for those activities, or in managing cash once received, may not be actively conducted.²⁵ This might be explained in part by the SBOs' perceptions about the efficiency and effectiveness of their own cash flow management systems.²⁶ It might also reflect the perceived lack of value that SBOs place on such practices. It is these concepts about the perceptions of SBOs in relation to the usefulness of records to assist with cash flow management, as well as the literacies that are analysed in this research.

As discussed, SBOs can be central to their business operations. Due to time and money constraints the way they perceive the usefulness of something could dictate how much time and resources they will put towards something, as could their understanding. Small business success may be influenced by the managerial capabilities of SBOs and if inadequate can cause failure of the business.²⁷ This can especially be the case at the commencement of the business, as the technical skills and knowledge of the SBO can be central.²⁸ This in part can be due to not having the financial resources to seek external advice and support, as well as the desire to have control. This can be of concern as such skills and knowledge about financial management can be lacking at the start-up of their business.²⁹

A Managerial Benefits

Running any business will generally result in tax obligations, including not only the payments of taxes, but also the reporting of obligations (such as lodging tax returns). At the Federal level in Australia, the tax obligations of a small business can include (but are not limited to) fringe benefits tax ('FBT'),³⁰ Goods and Services Tax ('GST'),³¹ income tax,³² and pay as you go ('PAYG') withholding.³³ Additionally, there is the superannuation guarantee (SG),³⁴ which is not a tax system, however, due to the reliance of the calculation of SG based on PAYG withholding, and the regularity of reporting obligations, it is included in this research. Reporting obligations can include preparing annual income tax

²⁴ Melissa Belle Isle and Brett Freudenberger, 'Calm Waters: GST and Cash Flow Stability for Small Businesses in Australia' (2015) 13(2) *eJournal of Tax Research* 492, 514; Michael Peel, Nicholas Wilson and Carole Howorth, 'Late Payment and Credit Management in the Small Firm Sector: Some Empirical Evidence' (2000) 18(2) *International Small Business Journal* 17, 19.

²⁵ Belle Isle and Freudenberger (n 24), 514; Peel, Wilson and Howorth (n 24) 19.

²⁶ Australian Taxation Office, 'Small Business Engagement 2017' (5 April 2018) 36 ('ATO SB Engagement').

²⁷ Pearl Dahmen and Eileen Rodríguez, 'Financial Literacy and the Success of Small Businesses: An Observation from a Small Business Development Centre' (2014) 7(1) *Numeracy* 1, 3.

²⁸ DeThomas and Fredenberger (n 16).

²⁹ Peel, Wilson and Howorth (n 24) 19, except for those businesses operating in finance and accounting.

³⁰ *Fringe Benefits Tax Assessment Act 1986* (Cth) ('FBT Act').

³¹ GST registration is mandatory for enterprises with a turnover of \$75000 or more, although voluntary registration is available to enterprises below this threshold see *A New Tax System (Goods and Services Tax) Act 1999* (Cth) s 23-5.

³² *Income Tax Assessment Act 1997* (Cth); *Income Tax Assessment Act 1936* (Cth).

³³ If the organisation is an employing entity. Non-employing entities are not required to adhere to PAYG.

³⁴ *Superannuation Guarantee (Administration) Act 1992* (Cth).

and FBT returns, lodgement of Business Activity Statements ('BAS') every month or quarter, which details GST, PAYG instalments on income tax and PAYG withholding tax from employee wages.

Not surprisingly, compliance with these tax obligations can lead to compliance costs for SBOs, which extend beyond the monetary cost to pay someone to do the compliance work, but also lost time (opportunity cost) for the SBO, as well as stress.³⁵ Studies have consistently demonstrated such costs can be regressive for small businesses.³⁶

These interactions with the tax system by the SBOs can lead to negative perceptions, as SBOs may feel like an unpaid tax collector³⁷ and that tax reduces their over-all profit margins.³⁸ However, there is the potential for some benefits to be derived from this tax compliance. One of the potential benefits of tax compliance can be managerial benefits.³⁹ That is, from keeping tax records this can provide SBOs greater insight to their operations.⁴⁰ The idea is that managerial benefits arise in the form of improved decision making and control over the business as a consequence of the imposition of regular record-keeping required for taxes, especially value added taxes, such as a GST.⁴¹ Research has demonstrated that for small businesses, if it was not for tax obligations they may not even have business records.⁴² In particular, micro businesses have been found to be unwilling to pay to obtain accounting information in the absence of tax compliance obligations.⁴³ Also, there is some suggestion that for non-complying taxpayers the ability to realise managerial benefits may provide more incentives to improve tax compliance rather than the imposition of penalties.⁴⁴

However, while the generation of tax reports and business records have the potential to assist SBOs there are a number of reasons that might contribute to few SBOs actually realising such managerial benefits from their tax records. Inhibiting factors can include the negative perceptions of SBOs that such accounting information can actually assist them in running their business.⁴⁵ This interaction may also be influenced by SBOs' low literacy in areas of business tax, financial statements and CAS, which may inhibit the use

³⁵ Nahida Faridy, Brett Freudenberg, Tapan Sarker and Richard Copp, 'The hidden compliance cost of VAT: An exploration of psychological and corruption costs of VAT in a developing country' (2016) 14(1) *eJournal of Tax Research* 166.

³⁶ Lignier and Evans (n 2); Lignier, Evans and Tran-Nam (n 2).

³⁷ Yong and Freudenberg (n 5).

³⁸ Melissa Belle Isle and Brett Freudenberg, 'Taxing my cash flow: The influence of tax on small service sector business cash flow' (2021) 16(1) *Journal of Australasian Tax Teachers Association* 1.

³⁹ Lignier (n 1).

⁴⁰ *Ibid.*

⁴¹ Binh Tran-Nam, 'Tax compliance costs methodology – a research agenda for the future' in C Evans, J Pope and J Hasseldine (eds), *Tax Compliance Costs: A Festschrift for Cedric Sandford* (Prospect, 2001) 51-68.

⁴² Lignier (n 3).

⁴³ *Ibid.*

⁴⁴ Nahida Faridy, Brett Freudenberg and Tapan Sarker, 'What is in it for me? The potential for managerial benefits to improve tax compliance' (2018) 33(2) *Australian Tax Forum* 307.

⁴⁵ Lignier (n 3) 114.

of and/or understanding of such records.⁴⁶ The perceptions of SBOs about the usefulness of accounting and accounting information may be influenced by their own characteristics of education, knowledge of accounting and business experience.⁴⁷ Also the records generated for tax obligations may not be 'fit for purpose' in helping understand the business performance, as well as the business cash flow. This could include the perception that tax records are too old once they are generated.

These potential influences of being able to fully realise the managerial benefits from records are now discussed below.

B Use of Records

Australian and New Zealand small businesses have been found to predominantly use accounting information for tax purposes.⁴⁸ Consequently, even though accounting records are used for tax purposes, there is doubt as to whether these records were used for managing their business compared to completing tax returns. Even when a SBO seeks an advisor's assistance, it is not clear whether advisors have the skills and/or the capacity to assist SBOs to fully realise these managerial benefits. Research demonstrates that small businesses are only likely to see an advisor a few times a year, and mostly this interaction relates to fulfilling tax obligations.⁴⁹ If this interaction is so infrequent and mainly focused on tax obligations, it may be that the business health is not fully canvassed. This could explain why New Zealand tax practitioners mostly failed to discuss any managerial benefits associated with the tax compliance activities of their small and medium enterprise ('SME') clients.⁵⁰ This can lead to concerns about whether practitioners themselves will be active in reflecting on the business performance when completing tax reporting requirements. This might also be because that tax practitioners perceive that they are paid to assist with tax compliance, and not paid to provide business performance advice. This in part could be related to small businesses being reluctant or unable to afford to pay for additional services.

In relation to GST, it has been found that for Australian small businesses only two management areas were clearly recognised as being of benefit from the obligation to comply with GST, being the maintenance of their record keeping systems, and providing information for their income tax obligations.⁵¹ This supports the notion that tax creates the incentive to create records, which then can assist in complying with the tax at hand,

⁴⁶ Melissa Belle Isle, Brett Freudenberg and Tapan Sarker, 'Is the literacy of small business owners important for cash flow management?: The experts' perspective' (2018) 13(1) *Journal of Australasian Tax Teachers Association* 31; Melissa Belle Isle, Brett Freudenberg and Tapan Sarker, 'The Business Tax Literacy of Australian Small Businesses' (2022) 37(1) *Australian Tax Forum* 65; Melissa Belle Isle, Brett Freudenberg and Tapan Sarker, 'Top of the Grade: Factors that could influence small business literacy' (2022) 24(1) *Journal of Australian Taxation* 5.

⁴⁷ Faridy, Freudenberg and Sarker (n 44).

⁴⁸ Lignier (n 3); Sue Yong and Fiona Martin, 'Tax compliance and cultural values: the impact of "individualism and collectivism" on the behaviour of New Zealand small business owners' (2016) 31(2) *Australian Tax Forum* 289.

⁴⁹ Yong and Freudenberg (n 5).

⁵⁰ Ibid 76.

⁵¹ Melissa Belle Isle, Brett Freudenberg and Richard Copp, 'Cash flow benefit from GST: Is it realised by small businesses in Australia?' (2014) 29(3) *Australian Tax Forum* 417.

as well as other taxes (here income tax). However, research found that there was a strong negative perception about being able to utilise this GST information for business credit management and decision making.⁵² This would seem to suggest little or no managerial benefits in terms of business operation and cash flow management were realised.

Other research has established that SBOs have limited use of financial reports as they place minimal significance on financial information.⁵³ SBOs believed that the main purpose of record-keeping and producing reports is for tax purposes. This is supported by other research that included SMEs and found that records created are just for legal tax obligations and raised concerns whether business owners even considered that the records would be useful in understanding the business performance.⁵⁴

Instead of any actual tax or business records, more importance can be placed on keeping up-to-date with their cash/bank balance, a figure perceived as a better measure of their business performance.⁵⁵

C Perceptions and Resources

Due to time and money constraints the way SBOs perceive the usefulness of something could dictate how much time and resources they will dedicate towards it. Cullis and Lewis have stated that what can be most pivotal is taxpayers' values, attitudes, perceptions and morals in terms of tax compliance.⁵⁶ Braithwaite on the other hand has argued about motivational postures in a Wheel of Social Alignment, where she suggests that tax compliance is influenced by the (i) technical, (ii) perceptions and (iii) the other.⁵⁷ In terms of 'perceptions' she argues that this has three components: perceptions of benefits, fairness and moral obligations. These components can work together to influence a taxpayer's behaviour in terms of tax compliance.

In terms of SMEs, the factors of high tax rates, perceptions of tax fairness, government spending priorities, tax service quality, and personal norms can influence tax compliance decisions.⁵⁸ However, if businesses are faced with paying additional 'top up' tax as the instalments of their income tax were too low, this can lead to disgruntle feelings.⁵⁹ Business owners can perceive taxes as a loss of money, and taxes can restrict their

⁵² Ibid 439.

⁵³ Halabi, Barrett and Dyt (n 4).

⁵⁴ Yong and Freudenberg (n 5).

⁵⁵ Sue Yong, Deryl Northcott and Keith Hooper, 'Culture and the tax compliance behaviour of ethnic business owners' (2014) 20 *New Zealand Journal of Taxation Law and Policy* 71.

⁵⁶ John Cullis and Alan Lewis, 'Why people pay taxes: From a conventional economic model to a model of social convention' (1997) 18 (2-3) *Journal of Economic Psychology* 305.

⁵⁷ Valerie Braithwaite, 'Tax and democracy: Bygone ideas or time for reinvention?' (Conference Paper, Australasian Tax Teachers Association Conference, 18-20 January 2017).

⁵⁸ Banele Dlamini, 'Determinants of tax non-compliance among small and medium enterprises in Zimbabwe' (2017) 9(4) *Journal of Economics and Behavioral Studies* 242; Michael Wenzel, 'Motivation or rationalisation? Causal relations between ethics, norms and tax compliance' (2005) 26(4) *Journal of Economic Psychology* 491.

⁵⁹ Bernadette Kamleitner, Christian Korunka and Erich Kirchler, 'Tax compliance of small business owners' (2012) 18(3) *International Journal of Entrepreneurial Behaviour & Research* 330. Of course, this means that they have more cash on hand during the year which can be important due to financial constraints.

freedom to decide. This perception of 'loss' may be critical given loss aversion theory, where people can place more emphasis on losing something compared to gaining.⁶⁰ According to behavioural finance, losses can hurt twice as much as gains yield pleasure.⁶¹

In terms of perception, it has been found that taxes have been negatively resented by the SBOs as they conjured up notions of bureaucracy, disincentives to work hard and limiting their entrepreneurial freedom.⁶²

In a study of both New Zealand and Malaysian taxpayers there was some interesting relationships between tax literacy, perceptions of the tax system and compliance.⁶³ Saad found that tax knowledge and tax complexity had 'significant positive path coefficients with fairness perceptions in New Zealand and Malaysia' meaning that an 'increase in tax knowledge would significantly improve fairness perceptions'.⁶⁴ Saad also found that 'tax fairness' did not just relate to the imposition and administration of tax laws, but also government spending of the tax revenue raised.⁶⁵ Unfortunately, the Saad research did not consider the perceptions of taxpayers conducting a business. Consequently, it is important to have a better appreciation of the perceptions of SBOs, as their issues and interaction with the tax system could be different to individuals (non-business) taxpayers.

An OECD commissioned report explored a qualitative survey undertaken in the United Kingdom regarding the motivation behind SMEs' compliance with tax regulations.⁶⁶ The research was built around ethnographical work with 16 representative SMEs supplemented by focus groups. The research took six months where SMEs were observed in their day-to-day operations. Of particular relevance to this study is the findings that SMEs have poor tax habits and can rely heavily on their tax advisors. Additionally, tax is not perceived as falling part of the 'natural rhythm' of the business in terms of orders, customer interactions, deliveries, and sales. Overall, this can lead to poor perceptions about tax and the outcomes, as 'tax compliance is seen as an activity for which SMEs get no return'.⁶⁷

III SBO LITERACY

It appears that the literacy of an SBO may influence the potential to realise managerial benefits. Small business failure has been affiliated with several barriers in the business environment including financial constraints, market imperfections, resource restrictions,

⁶⁰ Amos Tversky and Daniel Kahneman, 'Loss aversion in riskless choice: a reference-dependent model' (1991) 106(4) *Quarterly Journal of Economics* 1039.

⁶¹ Ibid.

⁶² Erich Kirchler, 'Reactance to taxation: Employer's attitudes towards taxes' (1999) 28(2) *Journal of Socio-Economics* 131.

⁶³ Natrah Saad, 'Fairness Perceptions and Compliance Behaviour: Taxpayers' Judgments in Self-Assessment Environments' (PhD Thesis, University of Canterbury, 2011).

⁶⁴ Ibid 437.

⁶⁵ Ibid 420.

⁶⁶ OECD, 'Forum on Tax Administration: SME Compliance SubGroup - Understanding and Influencing Taxpayers' Compliance Behaviour' (Report, 2010).

⁶⁷ Ibid.

inadequate technical expertise and limited managerial skills.⁶⁸ The inability of the SBO to recognise the influence of these barriers on their business can cause further detrimental consequences. This is particularly relevant given the central role played by the SBO in their business operations. Some of these barriers are outside of the control of the SBO. For example, in Australia, small business financial constraints were evident during the global financial crises.⁶⁹ However, many internal barriers could potentially be overcome by an increased level of SBO literacy.⁷⁰ Part of this is being able to manage cash flow effectively, which takes skills, as well as having the records to be able to demonstrate insights to the business operations.

Literacy can be extended to include the specific circumstances of the individual. For example, there are extended definitions for literacy in respect of finances, information technology, taxation, accounting, statistics, and health, plus others that develop over time.⁷¹ A business owner may need to possess many different literacy skills to manage a business. This could be problematic for SBOs, considering that they are often the sole decision maker in all areas of the business, which effectively requires their literacy to be multifaceted. From a cash flow management perspective, SBO literacy skills could relate to finance, taxation, information technology, cash management, economics, and accounting. This research focuses on the literacy of SBOs in terms of professional financial literacy, CAS literacy and business tax literacy.

The professional financial literacy of SBOs is important for small businesses when competing in the marketplace. Their larger competitors are more likely to employ experts in the fields of accounting or finance to propose financial decisions and implement effective cash flow management practices.⁷² In contrast, the small business may rely on the knowledge and abilities of the SBO, or of an external advisor who is afforded a snapshot view of the individual business situation.⁷³ This means that, in order to remain solvent in the market, SBOs need adequate financial foundations that allow them to make smart financial decisions. They also need to implement strategic business plans that allow them to recognise risk, maintain cash flow and utilise assets to ensure maximum profit

⁶⁸ Dedy Suahputra Sijabat and Taufik Fathurohman, 'The Relationship of MSME Owners Financial Literacy Score and MSME's Performance: Case Study of MSME's in School of Business and Management Bandung Institute of Technology' (2017) 2(1) *Journal of Innovation, Business and Entrepreneurship* 23.

⁶⁹ Belle Isle, Freudenberg and Copp (n 51).

⁷⁰ Sandra J Huston, 'Measuring financial literacy' (2010) 44(2) *Journal of Consumer Affairs* 296. In recent times the notion of 'capability (compared to literacy) has arisen, as capability covers not only a person's understanding something but also the confidence and capability to actual use that knowledge.

⁷¹ Ibid 307.

⁷² Jack Foley, 'We Really Need to Talk About Owner-Managers and Financial Awareness!' (2018) 25(1) *Small Enterprise Research* 90.

⁷³ Ibid.

generation.⁷⁴ This can be a tough ask, as SBOs are multitasking in their business and carrying out a multitude of roles from primary generator of income, human resource manager and administration assistant to financial controller.

It is suggested that SBOs having adequate professional financial literacy can assist with everyday functions in the workplace, as well as the ability to understand what records are telling you. The understanding of financial statements is a component of professional financial literacy. Important skills for professional financial literacy may include reading and understanding balance sheets, income statements, cash flow statements,⁷⁵ and preparation of a Cash Budget.⁷⁶ It also includes the ability for SBOs to determine the limitations of their own financial ability and to know when it is necessary to seek advice if the information within the statements is confusing or inaccurate.⁷⁷

In today's business environment Information and Communication Technologies ('ICT') are constantly evolving. ICT restrictions can also be evident where the user lacks confidence in their ability to operate the ICT and has difficulty retaining knowledge on how the ICT functions.⁷⁸ These restrictions can inhibit small businesses to be more competitive in the marketplace, as ICT knowledge can provide them with the ability to gather, store and analyse internal information to ensure that their business operates to maximum efficiency.⁷⁹ For many small businesses in Australia one such ICT software that can provide real-time reporting is a CAS system, which can generate many of the professional financial statement reports.⁸⁰ CAS literacy for this research considers the use

⁷⁴ Ibid; Jacob Nunoo and Francis Kwaw Andoh, 'Sustaining Small and Medium Enterprises through Financial Service Utilization: Does Financial Literacy Matter?' (Paper, Agricultural and Applied Economics Association Annual Meeting, 12-14 August 2012); William T Sucuahi, 'Determinants of Financial Literacy of Micro Entrepreneurs in Davao City' (2013) 1(1) *International Journal of Accounting Research* 44; Sean Wise, 'The Impact of Financial Literacy on New Venture Survival' (2013) 8(23) *International Journal of Business and Management* 30.

⁷⁵ The Australian Accounting Standards Board makes Accounting Standard AASB 107 *Statement of Cash Flows* under *Corporations Act 2001* (Cth) s 334 outlines the benefits of a statement of cash flows; a statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

⁷⁶ Reva Berman Brown, Mark N K Saunders and Richard Beresford, 'You owe it to Yourself: The Financially Literate Manager' (2006) 30(2) *Accounting Forum* 171, 188.

⁷⁷ Chukuakadibia E Eresia-Eke and Catherine Raath, 'SMME Owners' Financial Literacy and Business Growth' (2013) 4(13) *Mediterranean Journal of Social Sciences* 397.

⁷⁸ Paul Matthews, 'ICT Assimilation and SME Expansion' (2007) 19(6) *Journal of International Development* 817, 819; Timothy L Pett and James A Wolff, 'SME Identity and Homogeneity – Are There Meaningful Differences between Micro, Small, and Medium-Sized Enterprises?' (2012) 6(2) *Journal of Marketing Development and Competitiveness* 48, 49.

⁷⁹ Leonora C Hamilton and Ramachandra Asundi, 'Technology usage and innovation: its effect on the profitability of SMEs' (2008) 31(11) *Management Research News* 830; Pett and Wolff (n 78) 49.

⁸⁰ Mike Rich, 'IT-Savvy Businesses are more Profitable' (2012) 25(11) *NZ Business* 26, 27.

of a CAS to create common financial statements, as well as the automation of invoicing and debt collection.

Tax literacy is commonly referred to in the literature as tax knowledge. Tax knowledge has been defined as an understanding of tax policy that is essential to a taxpayer's situation within the region or country in which that taxpayer resides.⁸¹ The definition has been extended to suggest that it is a taxpayer's understanding and mindfulness of the tax legislation.⁸²

The failure to possess a sufficient level of tax literacy can result in taxpayers engaging in both intentional and unintentional non-compliance behaviour.⁸³ For example, lacking the ability to recognise basic tax concepts can result in taxpayers not complying and incurring a tax debt with the tax authority.⁸⁴ Tax debts occur primarily as a result of administration mistakes or cash flow shortfalls.⁸⁵ Cash flow shortfalls, such as when a major debtor does not pay on time, may result in the SBO using their tax funds as an unofficial line of credit, using the tax held to pay important suppliers and/or staff.⁸⁶

There appears to be some indication that tax literacy can influence how taxpayers comply with the tax system, as well as their perception overall of the tax system, including perceptions of fairness of the tax system.⁸⁷ While it has been observed that SBOs can have inadequate tax knowledge,⁸⁸ SBOs have been measured as having greater tax literacy than the general public.⁸⁹

⁸¹ Newman Wadesango et al, 'Literature Review on the Impact of Tax Knowledge on Tax Compliance among Small Medium Enterprises in a Developing Country' (2018) 22(4) *International Journal of Entrepreneurship* 1, 2.

⁸² Ibid 5.

⁸³ Natrah Saad, 'Tax Knowledge, Tax Complexity and Tax Compliance: Taxpayers' View' (2014) 109 *Procedia - Social and Behavioral Sciences* 1069, 1070; Wadesango et al (n 81) 2 and 4.

⁸⁴ Eliza Ahmed and Valerie Braithwaite, 'Understanding Small Business Taxpayers issues of Deterrence, Tax Morale, Fairness and Work Practice' (2005) 23(5) *International Small Business Journal* 539, 543; Toni Chardon, Brett Freudenberg and Mark Brimble, 'Tax Literacy in Australia: Not Knowing Your Deduction from Your Offset' (2016) 31(2) *Australian Tax Forum* 321, 345; Guilia Mascagni and Fabrizio Santoro, 'What is the Role of Taxpayer Education in Africa?' (International Centre for Tax and Development, 2018); Elisabeth Poppelwell, Gail Kelly and Xin Wang, 'Intervening to Reduce Risk: Identifying Sanction Thresholds Among SME Tax Debtors' (2012) 10(2) *eJournal of Tax Research* 403.

⁸⁵ Ibid 415.

⁸⁶ Belle Isle and Freudenberg (n 38) 7.

⁸⁷ Saad (n 63).

⁸⁸ Ahmed and Braithwaite (n 84).

⁸⁹ Brett Freudenberg et al, 'Tax Literacy of Australian Small Businesses' (2017) 18(2) *Journal of Australian Taxation* 21.

Greater tax literacy could lead to greater compliance.⁹⁰ Research has demonstrated that education and tax law literacy may have a positive impact on compliance.⁹¹ It appears that taxpayers consider that if they had improved tax law literacy their compliance would improve.⁹² Increased tax law literacy may improve taxpayers' attitude toward the tax system,⁹³ and thereby may have a positive influence on the willingness to be compliant.⁹⁴ Whether their behaviour would change is questionable, but it could assist those who do want to comply as suggested by McKerchar's findings.⁹⁵

The study by Saad found for some scenarios that having better knowledge of the tax system will improve tax compliance,⁹⁶ but, in other scenarios, no such relationship was found.⁹⁷ The difference in the results was attributed to whether there is a greater chance of the taxpayer being detected for non-compliance (ie, document trail). However, when there seemed to be lower chance of detection (ie, cash in hand) then greater tax literacy did not necessarily lead to greater tax compliance. It may be that if there is opportunity for non-compliance with little chance of detection, then taxpayers may still be non-compliant even with greater tax literacy.⁹⁸ However, these conclusions need greater research to determine whether this is the case or not.

Enhanced tax literacy, has been associated with a positive perspective about the fairness of taxes, and helps recognise the deliverable benefits of the tax system (and provision of Government services) to the taxpayer.⁹⁹ Improved tax literacy is also advantageous for determining the correct calculation of the tax liability, and for implementing tax minimisation strategies.¹⁰⁰ However, it is recognised that in order for taxpayers to successfully fulfil all of their tax responsibilities without assistance from experts, taxpayers would need to be highly skilled in tax law and provisions.¹⁰¹ This is not a common circumstance for the majority of taxpayers as it is acknowledged that part of tax literacy is knowing when to seek professional advice.

⁹⁰ Jeyapalan Kasipillai and Abdul Jabbar, 'Tax compliance attitude and behaviour: Gender & ethnicity differences of Malaysian taxpayers' (2003) *The Malaysian Accountant* 1; Erich Kirchler, Apolonia Niemirowski and Alexander Wearing, 'Shared subjective views, intent to cooperate and tax compliance: Similarities between Australian taxpayers and tax officers' (2006) 27(4) *Journal of Economic Psychology* 502.

⁹¹ Paul Muoki Nzioki and Osebe Rawlings Peter, 'An analysis of factors affecting tax compliance in the real estate sector in Kenya: a case study of real estate owners in Nakuru town, Kenya' (2014) 5(11) *Research Journal of Finance and Accounting* 1.

⁹² Saad (n 83).

⁹³ Knut Eriksen and Lars Fallan, 'Tax Knowledge and attitudes towards taxation: A report on a quasi-experiment' (1996) 17(3) *Journal of Economic Psychology* 387.

⁹⁴ Nurlis Islamiah Kamil, 'The Effect of Taxpayer Awareness, Knowledge, Tax Penalties and Tax Authorities Services on the Tax Compliance: (Survey on the Individual Taxpayer at Jadobdetabek and Bandung)' (2015) 6(2) *Research Journal of Finance and Accounting* 104.

⁹⁵ Margaret McKerchar, 'Understanding small business taxpayers: Their sources of information and level of knowledge of taxation' (1995) 12(1) *Australian Tax Forum* 25.

⁹⁶ Saad (n 63) 320. For Scenario 1: overstating Business expenses.

⁹⁷ For Scenario 2: underreporting cash income.

⁹⁸ Saad (n 63) 323.

⁹⁹ Freudenberg et al (n 89); Mascagni and Santoro (n 84); Poppelwell et al (n 84).

¹⁰⁰ Ahmed and Braithwaite (n 84) 543; Saad (n 83), 1070; Wadesango et al (n 81) 2.

¹⁰¹ Saad (n 83).

It is due to these reasons that this research seeks to consider any potential relationship between SBO perceptions and their literacies.

IV RELATED RESEARCH FINDINGS

This article builds upon prior research by considering the potential relationship between perception and literacy of SBOs. Prior research reported a small qualitative study of 17 interviews with SBOs,¹⁰² which found that service SBOs can perceive that GST, PAYG withholding, and SG can have negative consequences for cash flow stability. In particular, the amount of the tax liability for PAYG withholding and SG, when paid to the ATO each quarter, can result in cash flow constraints.¹⁰³ In respect of the negative impact of GST this can be due to a combination of business factors and not just the tax itself, such as market competition, the variability of incoming revenue and the non-receipt of payments from trade debtors before the GST liability is due to the ATO.¹⁰⁴

A later study reported a survey which measured four literacies of SBOs, being financial statements, CAS, business tax, and then aggregating these to form an ‘overall literacy’ score. This was achieved by developing 43 literacy questions for SBOs, which comprised seven questions related to the understanding of financial statements, ten questions concerning the use of a CAS system and twenty-six business tax questions. See Appendix A for a list of the literacy questions.

From the responses to these questions, four literacy scores were created for: financial statement literacy; CAS literacy; business tax literacy; and an overall literacy. Similar scoring of knowledge has been carried out in prior tax literacy research by Chardon et al.¹⁰⁵

The financial statements literacy questions explored service SBOs’ understanding of the information contained in financial statements and the use of that information to determine liquidity, working capital, profit and cash availability.

Table 1 demonstrates that the mean literacy score for financial statements achieved by participants was 4.70 of a possible 7, equating to 67.14%. This means overall that two-thirds of service SBOs answered their financial statement literacy questions correctly. It appears that their financial statement literacy is greater than their CAS and business tax literacy (see later).

Table 1: Mean Score for business tax, financial statement and CAS

Literacy score type	Total score available	Mean score of SBOs	Mean as a % of total
Financial statement literacy score	7	4.70	67.14%

¹⁰² Belle Isle and Freudenberg (n 38).

¹⁰³ Ibid.

¹⁰⁴ Ibid.

¹⁰⁵ Chardon et al (n 84).

CAS literacy score	10	5.52	55.20%
Business tax literacy score	26	10.89	41.88%
Overall literacy score	43	21.54	50%

To determine whether service SBOs make use of CAS to implement cash flow practices, participants were asked to confirm whether they engaged in certain activities that have previously been identified as favourable to business success.¹⁰⁶ These questions, included six questions relevant to creating reports in CAS and four questions related to carrying out cash inflow activities. A mean CAS literacy score for participant service SBOs was determined to be 55.2%. Accordingly, just over half of the service SBOs answered the CAS questions in the affirmative.

For the business tax literacy score service SBOs were asked questions related to each of the five major tax systems; income tax, PAYG withholding, SG, GST and FBT.¹⁰⁷ A business tax literacy score and an literacy score relevant to each tax system was ascertained for each service SBO participant, which has been reported elsewhere.¹⁰⁸ An overall business tax literacy score was achieved by adding the correct answers to the business tax literacy questions to achieve a total score for each service SBO.

¹⁰⁶ Australian Taxation Office (n 26).

¹⁰⁷ These are reported elsewhere: see Belle Isle et al (n 46). This related research also includes an analysis of whether there is any relationship between the demographics of the participants and their literacy scores.

¹⁰⁸ Ibid.

As displayed in Table 1, the mean business tax literacy score equates to 10.89 out of a possible 26. When calculated as a percentage, service SBOs have a mean business tax literacy score of 41.88%, which means that, on average, service SBOs get only 42% of tax questions correct. This means that business tax literacy is lower than financial statements and CAS. These three literacies scores were then aggregated to give an overall literacy score out of 43, which was calculated to have a mean score of 21.54 (approximately 50%). To expand our knowledge and understanding this article provides important insights as to the potential relationship (if any) between the literacies of SBOs and the perception of the usefulness of tax records and financial statements through a large-scale survey.

V RESEARCH METHODOLOGY

To ascertain the literacies and perceptions a survey was constructed using a web-link to the survey created in the Survey Monkey online survey platform. This web-link was used on multiple platforms to engage with SBOs in the service sector. The advantages of surveys conducted using a web-link are that they are both time and cost effective, along with their ability to reach larger geographical areas more effectively.¹⁰⁹ Ethical clearance for the research was obtained and included such caveats as anonymity and the ability of participants to withdraw at any time.¹¹⁰

The sample of SBOs in Australia was achieved through three different sampling techniques: convenience, snowball and stratified sampling.¹¹¹ Convenience sampling was used to contact both professional and personal contacts of the research team using email, Facebook and LinkedIn. These contacts included participants of a qualitative stage of the project, students (current and past) and small businesses known to the research team. Engagement with these contacts also resulted in snowball sampling techniques, as possible participants were encouraged to share the survey with their own networks. Participants were also sought using snowball sampling by contacting industry associations and representatives of professional bodies. These groups shared the web-link for the survey with their network or member listing using newsletters, mass email distribution and website blogs. Groups involved in distributing the survey, included Business South Australia, The Tax Institute, Australian Institute of Credit Management, and a variety of groups within Griffith University including the Griffith Alumni, Entrepreneurship Seminar Series and the Griffith News Blog.¹¹²

The final method of sampling used for the large-scale survey was a stratified sample of businesses registered for an Australian Business Number ('ABN') in Australia. Businesses were categorised by their geographical location and, as a result, the strata for the project were the States or Territories of Australia. Those chosen for stratified sampling included

¹⁰⁹ Edith de Leeuw, 'To Mix or Not to Mix Data Collection Modes in Surveys' (2005) 21(2) *Journal of Official Statistics* 233, 234; Floyd J Fowler, *Survey Research Methods* (Sage Publications, 4th ed, 2009).

¹¹⁰ Full Research Ethics Clearance: GU Ref No 2016/194.

¹¹¹ John W Creswell and Vicki L Plano Clark, *Designing and Conducting Mixed Methods Research* (Sage Publications, 2007) 123.

¹¹² See Mitch Knox, 'Calling small businesses: Griffith researcher wants to help your cash flow' Griffith University (Web Page, 13 February 2019) <<https://news.griffith.edu.au/2019/02/13/calling-small-businesses-griffith-researcher-wants-to-help-your-cash-flow>>.

Tasmania, New South Wales, Victoria, Western Australia, and the Australian Capital Territory. The Northern Territory was excluded due to time restrictions, as the random sample selection could not be concluded before the survey closing date. A conscious decision, made to exclude Queensland from the stratified sample method, was because the research team are all based in Queensland, and that small business participants who were drawn from the convenience and snowball sampling were more likely to be in Queensland because the researchers' personal and professional networks were predominantly from Queensland.

As a result of the variety of sampling techniques employed for the large-scale survey, it is impossible to ascertain a specific response rate. An alternative in this situation is the identification of a completion rate. This is calculated by the number of participants who began the survey in comparison to those who completed the survey. A total of 259 started the survey and a total of 116 completed it, giving a completion rate of 45%. Note the survey was concluded in June 2019 and therefore the data was collected prior to the economic effect of the COVID-19 pandemic.

Once the survey closed for data collection, the results were extracted from Survey Monkey and imported into Microsoft Excel (Excel), a preparatory tool for initial data cleaning. The file of completed questionnaires was then imported into the research data analysis software, Statistical Package for the Social Sciences (SPSS).¹¹³ Data coding was then carried out. The variable types relevant to the survey data were scale and nominal categories.

For those questions structured in a Likert scale format, a new variable was created in 'scale' category to ensure that the coding of the data excluded answers where participants selected 'not applicable', 'not sure', 'advisor's job' or 'never thought of it'. Coding in such a way allowed for analysis of the results according to answers that fulfilled the Likert scale; this in turn prevented distortion of the values relevant to those who agreed or disagreed with statements being posed to participants.

The first draft of the survey was pilot tested by the researchers and then tested by a sample of small business owners, business advisers and tax academics. Important feedback was received relating to formatting and grammatical errors.

A Participants

The survey link was accessed by 259 respondents over the period between 1 October 2018 and 30 June 2019. Of these 259, only 116 completed the survey in totality as some were excluded as not a relevant small business or did not complete all parts of the survey. It should be noted that not all questions were relevant to all participants. While 116 is slightly disappointing, engaging small businesses in research has been previously identified as problematic.¹¹⁴ Nevertheless, the results are still useful to demonstrate insights into the literacy of SBOs and its potential relationship to the tax system and the

¹¹³ Version 26 of SPSS was used to conduct data analysis for this research.

¹¹⁴ Belle Isle et al (n 51); Ian Wallschutzky and Brian Gibson, 'Small Business Cost of Tax Compliance' (1993) 10(4) *Australian Tax Forum* 511.

usefulness of financial statements and CAS. Table 2 details the descriptive characteristics of the survey participants.

The 116 participants who completed the survey represented 16 Australian and New Zealand Standard Industrial Classification categories. The survey sample included almost two-thirds of Australian-born service SBOs and slightly more than one-third migrant service SBOs. In terms of education, more than 90% of service SBOs held a tertiary qualification, including postgraduate, undergraduate and TAFE qualifications. The most popular business structure, the company, was followed by sole traders, who collectively made up 72% of the participants. The business age categories of the participants were all represented, with more than 40% of businesses being in operation for more than 10 years, and with 19% representing the youngest business category of less than two years. The participants primarily employed five or fewer employees, with 44% employing between 1 and 5 employees and 40% non-employing. In terms of annual income, more than 95% of the participants earned \$2,000,000 or less.

Table 2: Summary of participant characteristics

Demographic	Categories	N = 116	Percentage
Residency	Less than 5 years	1	0.9%
	More than 5 years but less than 10 years	7	6.0%
	More than 10 years but less than 15 years	8	6.9%
	More than 15 years but less than 20 years	8	6.9%
	More than 20 years	17	14.7%
	I was born in Australia	75	64.7%
Education	Left school before completion of year 10	1	0.9%
	Year 10	1	0.9%
	Year 12	8	6.9%
	TAFE qualification	23	19.8%
	University undergraduate degree	36	31.0%
	University post graduate degree	47	40.5%
Business Structure	Sole Trader	40	34.5%
	Partnership	6	5.2%
	Company	44	37.9%
	Trust	9	7.8%
	Combination of Company and Trust	16	13.8%
	I'm unsure of the business structure	1	0.9%
Business Age	Less than 2 years	22	19.0%
	More than 2 years but less than 5 years	19	16.4%
	More than 5 years but less than 10 years	28	24.1%
	More than 10 years	47	40.5%
Number of Employees (excluding the owner)	Zero	46	39.7%
	1 to 5	51	44.0%
	6 to 10	9	7.8%
	11 to 20	10	8.6%
Past Business Experience	Yes	62	53.4%
	No	54	46.6%
Annual Turnover	Under \$50000	30	25.9%
	\$50001-\$200000	36	31.0%
	\$200001-\$2000000	44	37.9%
	\$2000001-\$5000000	4	3.4%
	\$5000001-\$10000000	2	1.7%

VI RESULTS

To examine the importance that service SBOs place on different concepts to understand their business performance, participants were asked to record their perceptions about a variety of statements. These responses explored service SBOs' perception about benefits and/or burdens to cash flow from the three areas of literacy focused on in this research. Perception responses were then compared to literacy scores to determine if the perception of service SBOs has a relationship with their knowledge. This was thought to be useful, given that a person's perceptions about something could influence their future behaviour.¹¹⁵

A *Service SBO Perceptions of Accuracy*

The first set of questions asked service SBOs as to their perceptions of whether business records were accurate due to the five Federal tax systems considered, as well as the business activity statement ('BAS'). Table 3 illustrates that most service SBOs appear to recognise that their business records are accurate because of their business tax compliance obligations, as more than 80% agreed or strongly agreed (excluding those who selected 'not applicable') that the accuracy of their business records can be attributed to the requirement to report for these business tax systems. In terms of which tax system seem to aid more accurate business records, PAYG withholding (93.4%) appears to be the tax system that provides the most accuracy. Then in descending order this is followed by SG (88.5%), GST (88.3%), BAS (87.5%) and income tax (83.2%). Those taxes with greater business record accuracy might be attributed to the greater frequency of reporting for PAYG withholding, SG and GST, compared to reporting annually for income tax.¹¹⁶ FBT was the weakest of the five Federal tax systems in contributing to accurate business records (71.4%).¹¹⁷ The perception of law accuracy due to FBT could be that it is a unique tax system with unique valuation calculations required. This could also highlight how tax records could be more beneficial if aligned to business and accounting practices, rather than 'messing up' accounting records.¹¹⁸ Also FBT could be a tax that does not follow the 'normal rhythm' of the business.¹¹⁹

¹¹⁵ Melissa J Ferguson and John A Bargh, 'How Social Perception Can Automatically Influence Behavior' (2004) 8(1) *Trends in Cognitive Sciences* 33.

¹¹⁶ Other research has also observed such circumstances: Yong and Freudenberg (n 5) 61.

¹¹⁷ Those that selected not applicable are not included in the calculation.

¹¹⁸ Yong and Freudenberg (n 5) 75.

¹¹⁹ OECD (n 66).

Table 3 Accurate business records

Business records are accurate as a result of recording transactions for these taxes	Not Applicable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
GST	22	6 (6.4%)	0 (0.0%)	5 (5.3%)	25 (26.6%)	58 (61.7%)
FBT	88	0 (0.0%)	2 (7.1%)	6 (21.4%)	6 (21.4%)	14 (50.0%)
Income Tax	27	6 (6.7%)	2 (2.2%)	7 (7.9%)	32 (36.0%)	42 (47.2%)
PAYG Withholding	40	2 (2.6%)	0 (0.0%)	3 (3.9%)	26 (34.2%)	45 (59.2%)
SG	46	2 (2.9%)	0 (0.0%)	6 (8.6%)	22 (31.4%)	40 (57.1%)
BAS	20	6 (6.3%)	0 (0.0%)	6 (6.3%)	29 (30.2%)	55 (57.3%)

These findings appear to support related research findings that SBOs are largely confident about the accuracy of their revenue and expenses records, as well as their debtor and records.¹²⁰ It appears that recording transactions because of these taxes does contribute to more accurate business records. However, it should be acknowledged that accurate records by themselves does not ensure they are being used beyond completing tax returns. This is important as tax records can (and are different) to management records. For example, it is unlikely that 'taxable income' of a business would equate to the accounting concept of 'profit' for the same period, nor is it the same as considering the cash flow of the business for the same period.

B Service SBO Literacy and Usefulness of Financial Statements

Use of financial statements in small businesses has been found to have a positive relationship with improved performance and with the capacity to make informed decisions.¹²¹ However, research suggests that SBOs often undervalue the information that

¹²⁰ Melissa Belle Isle and Brett Freudenberg, 'I know it all? The relationship between small business tax and other literacies and their confidence' *Australian Tax Review* (forthcoming).

¹²¹ Miriam Bruhn and Bilal Zia, 'Stimulating Managerial Capital in Emerging Markets: The Impact of Business Training for Young Entrepreneurs' (2013) 5(2) *Journal of Development Effectiveness* 232, 234 and 248.

can be obtained from financial statements.¹²² In order to determine service SBO perception of the usefulness of financial statements, questions in the survey explored the extent that participants considered financial statements as being a worthwhile instrument for cash flow management and to determine cash flow.

Service SBOs were first asked if they perceived financial statements to be useful for the management of cash flow. Participants were able to select an answer within a scale of strongly disagree to strongly agree or to select an alternate response categorised under the heading of 'not applicable' (see Table 4). The results were significantly positive for all financial statements, with the balance of the bank account being the highest rated financial statement (94% agreeing). Technically the 'balance of bank account' is not a financial statement, but it was included in the survey as prior research indicated that this was used by SBOs as a major indicator of business health,¹²³ which was confirmed by small business experts in a separate study.¹²⁴ The prior qualitative study determined that service SBO reliance on cash levels in the bank was justified by participants due to the real-time availability of the information.¹²⁵ It is this 'real time' availability that could be a key to improved perceptions about the usefulness of information and statements. This supports other research that found that small businesses use the bank balance as a measure of cash availability and performance.¹²⁶

The results about the perceptions about the other financial statements appear to be more favourable than the feedback collected in a prior qualitative study.¹²⁷ This prior research suggested that three in every five service SBOs place minimal value on the use of financial statements for cash flow management. For example, almost 80% of service SBOs had implied that they place no value on preparing a cash budget.¹²⁸ However, it must be recalled that this prior qualitative study only consisted of 17 participants. In contrast, in this survey of the 95 participants who registered an answer other than not applicable, more than 90% believe that preparation of a cash budget is useful to the management of cash flow. Similarly, the Balance Sheet and Statement of Cash Flow were undervalued in the qualitative study, whereas the survey responses suggest that these statements are favourable to cash flow, with 76% and 85% of affirmative responses recorded respectively. Responses relating to the Profit and Loss Statement suggest that service SBOs in the survey place a higher value on the usefulness of this financial statement than that recorded in the qualitative study. Almost two-thirds of participants viewed the Profit and Loss Statement as beneficial in the qualitative study, and 85% suggested it was valuable for cash flow management in the survey. These results appear to indicate that service SBOs do perceive the value of information contained in financial statements as useful in managing their business cash flow.

¹²² Halabi, Barrett and Dyt (n 4) 171.

¹²³ Belle Isle and Freudenberg (n 38).

¹²⁴ Belle Isle, Freudenberg and Sarker (n 46).

¹²⁵ Belle Isle and Freudenberg (n 38).

¹²⁶ Halabi, Barrett and Dyt (n 4), 167-74.

¹²⁷ Belle Isle and Freudenberg (n 38).

¹²⁸ Ibid.

Table 4: SBO perception of the usefulness of financial statements

Usefulness of financial statements for cash flow management	Not Applicable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Prepare cash budget	21	2 (2.1%)	2 (2.1%)	3 (2.6%)	45 (47.9%)	42 (44.7%)
Balance Sheet	15	4 (4.0%)	7 (6.9%)	13 (11.2%)	46 (45.5%)	31 (30.7%)
Profit and Loss Statement	11	2 (1.9%)	3 (2.9%)	11 (9.5%)	47 (44.8%)	42 (40.0%)
Statement of cash flows	15	5 (5.0%)	2 (2.0%)	8 (7.0%)	41 (41.0%)	44 (44.0%)
Knowing the balance of the bank account	1	2 (1.7%)	1 (0.9%)	4 (3.4%)	44 (38.3%)	64 (55.7%)

* Note: 'not applicable' is not included in the percentage calculations due to the other responses being part of a Likert scale (which are then used for statistical analysis).

Of course, these financial statements are not tax records or tax statements (such as the income tax return or the BAS). When compared to the usefulness of business records due to tax (Table 3) to those financial statements considered (Table 4), it appears that the bank account balance (94%) and cash budget (92.6%) have higher agreeance than most tax records, except PAYG-W (93.4%). The Profit and Loss (84.8%), Statement of Cash Flow (85%) have similar levels of agreeance to the tax records of BAS (87.5%), SG (88.5%), and GST (88.3%). The Balance Sheet (76.2%) ranks lowly, with just slightly more agreeance than the FBT records (71.4%).

In an attempt to ascertain if there was any relationship between perception of the usefulness of financial statements and the four literacy scores of service SBOs a statistical analysis was conducted. Table 5 displays the results of the simple linear regression tests carried out at a .05 level of significance.

The test outcomes suggest that the perception of benefits service SBOs envisage from using financial statements for cash flow management are not consistent with their actual literacy levels. This could imply that the perception of value of financial statements by service SBOs is regardless of their individual literacy (which might include their ability to extract meaningful information to determine their business cash flow situation). The only test outcome that resulted in a linear relationship was between CAS literacy score and the usefulness of the Statement of Cash Flow, with a result of .042. This might be related to how the literacy questions were comprised. For business tax and professional financial literacy, the questions were knowledge based (see Appendix A), whereas the questions for CAS were more based on actions. This different measuring was because it was not

possible to see participants generate the relevant reports from their CAS. For example, some of the CAS literacy questions were:

I create the following in the business computer accounting software:

- A Balance Sheet at least every 3 months.
- A Profit and Loss Statement at least every 3 months.
- A Statement of Cash Flows at least every 3 months.
- A Cash Budget at least once a year.
- Reports for taxation at least every 3 months.

This means, that, provided participants answered accurately, then CAS literacy score as framed demonstrates generation of the reports (and hopefully their subsequent use).

The outcome of the regression tests relevant to financial statement literacy score could also indicate that, although service SBOs confirm that financial statements are useful for cash flow management, they may not put this into practice in their business. Financial statement literacy score was confirmed to have the highest mean score of all literacy scores:

Table 1. The perception of the usefulness of financial statements was significantly high, so it was envisaged that financial statement literacy score would likely predict service SBO perception. These results could suggest that not all service SBOs who value financial statements have a level of literacy that allows them to extract meaningful information from them for cash flow management. This could be a positive outcome of the research, as even though service SBOs may not have a level of literacy to understand financial statements today, the importance they place on financial statements for cash flow management could potentially motivate them to increase their literacy in the future. Or it may mean that they do not actively use that for financial statement literacy.

Table 5: The relationship between service SBO literacy (IV) and perception about the usefulness of financial statements (DV)

Literacy score, perception and usefulness of financial statements to cash flow management	Sum of Squares	df	Mean Square	F	Sig.
Preparation of a cash budget (DV)					
Overall literacy score (IV)	.821	1	.821	1.186	.279 ^b
Business tax literacy score (IV)	.195	2	.195	.289	.592 ^b
Financial statement literacy score (IV)	.003	1	.003	.004	.947 ^b
CAS literacy score (IV)	1.113	1	1.113	1.616	.207 ^b
The Balance Sheet (DV)					
Overall literacy score (IV)	.276	1	.276	.247	.620 ^b
Business tax literacy score (IV)	2.016	1	2.016	1.895	.172 ^b
Financial statement literacy score (IV)	1.397	1	1.397	1.305	.256 ^b
CAS literacy score (IV)	2.382	1	2.382	2.181	.143 ^b
The Profit and Loss Statement (DV)					
Overall literacy score (IV)	.030	1	.030	.038	.845 ^b
Business tax literacy score (IV)	.166	1	.166	.216	.643 ^b
Financial statement literacy score (IV)	.046	1	.046	.060	.807 ^b
CAS literacy score	.219	1	.219	.276	.601 ^b
The Statement of Cash flow (DV)					
Overall literacy score (IV)	.139	1	.139	.127	.723 ^b
Business tax literacy score (IV)	.352	1	.352	.339	.561 ^b
Financial statement literacy score (IV)	.000	1	.000	.000	.997 ^b
CAS literacy score (IV)	4.465	1	4.465	4.255	.042 ^b
The balance of the bank account (DV)					
Overall literacy score (IV)	.037	1	.037	.060	.806 ^b
Business tax literacy score (IV)	.378	1	.378	.645	.423 ^b
Financial statement literacy score (IV)	.055	1	.055	.094	.706 ^b
CAS literacy score (IV)	.009	1	.009	.014	.905 ^b

* DV = dependent variable, IV = independent variable

C *Service SBO Literacy and Perception of Tax on Cash Flow*

Service SBO perception about the impact of business tax on cash flow was explored by looking at the imposition of tax administration and at possible scenarios that could alter the burden of tax on cash flow.

Prior research established that some service SBOs advocate that paying PAYG withholding on a more regular basis reduces the impact on cash flow.¹²⁹ As a result, the survey examined service SBOs' perception to determine whether they thought more regular payment of PAYG withholding would influence the management of cash flow (see Table 6). The results of comparing businesses that report for PAYG withholding who responded strongly/agree with those who strongly/disagree do not align with the qualitative study results. Just over half (52%) of the participants in the qualitative study responding to the statement related to PAYG withholding do not believe that paying the liability more often would be favourable to managing cash flow; in comparison, 24% believe it would be beneficial. This could imply that a large portion of service SBOs are unlikely to support a mandatory change in reporting PAYG withholding on a more regular basis.

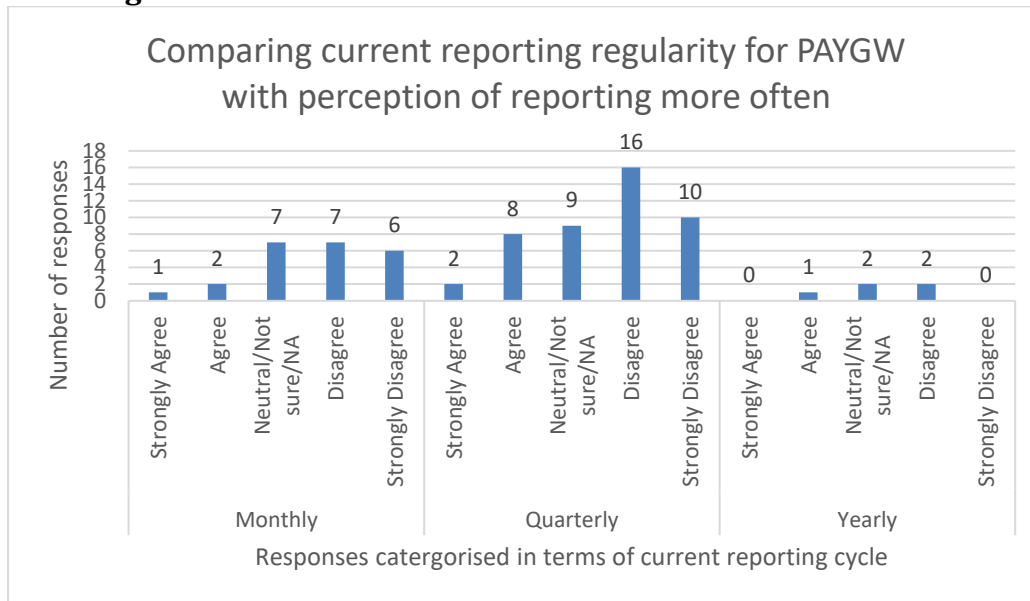
Table 6: Service SBO positive perception of tax concepts that influence cash flow

I think the following activities help me manage my cash flow	NA	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Paying PAYGW more often	25	17 (18.7%)	30 (33.0%)	22 (24.2%)	15 (16.5%)	7 (7.7%)
Paying SG more often	37	18 (22.8%)	21 (26.6%)	14 (17.7%)	19 (24.1%)	7 (8.9%)

* Note: 'not applicable' is not included in the percentage calculations due to the other responses being part of a Likert scale (which are then used for statistical analysis).

Figure 1 demonstrates the relationship between reporting PAYG withholding more often and the reporting cycle of those participants with PAYG withholding obligation. For participants who report monthly, 57% believed more frequent payment of PAYG withholding would not help with the management of cash flow. The responses from quarterly reporters, as a percentage are almost the same as those who are monthly, with 58% of participants disagreeing or strongly disagreeing. The small number of responses from participants reporting yearly means that discussing their perception of the benefits of changing payment cycles is difficult. Nevertheless, the data suggests that, regardless of whether participants report monthly or quarterly, service SBOs do not see any benefit in reporting PAYG withholding more frequently in terms of assisting them to manage their cash flow.

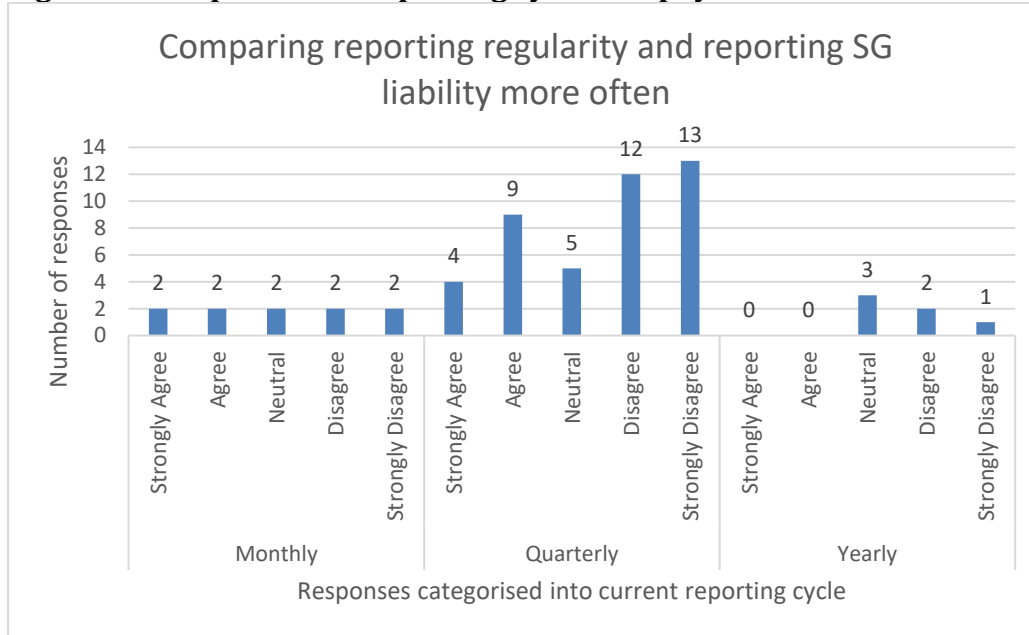
¹²⁹ Belle Isle and Freudenberg (n 38).

Figure 1: Comparison of reporting cycle and payment of PAYG withholding on a more regular basis

Service SBOs engaged in the prior qualitative study were asked to discuss any concerns they experienced from complying with SG,¹³⁰ with comments related to the use of clearing houses and the belief that if SG was paid at the same point in time as PAYG withholding payments were made to employees, it would reduce the burden on cash flow. Because SG is reliant on reporting for PAYG withholding, a similar question was posed to participants in the survey about whether it was beneficial to cash flow management to remit the SG liability on a more regular basis. It appears, when comparing the affirmative and negative responses, that although most respondents disagree, the difference between the number of participants who agree and those that disagree is not as substantial compared to the results for PAYG withholding. Just under half of the responding participants either disagree or strongly disagree that paying their SG liability more often would be benefit cash flow management (see Table 6). In contrast, approximately one-third propose that paying the liability more frequently would be an advantage to cash flow. However, almost one-third of the participants responded with not applicable, this could imply that participants are unsure or apprehensive about whether benefits could be realised.

Separating the responses according to those participants who have a SG obligation demonstrates that businesses reporting monthly have varying views on whether increasing reporting would influence cash flow (see Figure 2). In contrast, the results demonstrate a resistance by quarterly remitters to report and pay SG liability more frequently. However, this perception could be a result of quarterly reporters never having the opportunity to experience increased reporting opportunities, and therefore any proposal to increase it would need to be justified by the likely benefit that could be realised.

¹³⁰ Ibid.

Figure 2: Comparison of reporting cycle and payment of SG on more regular basis

Small businesses earning less than \$10 million were responsible for \$15 billion of the overall ATO tax debt in 2018, so it was important to investigate service SBO knowledge about the effects of incurring a debt with the ATO.¹³¹ Prior research has already established that just over one-third of participants in the survey have entered into a payment arrangement with the ATO in order to settle their tax liabilities.¹³² This could indicate that one-third of participants have had cash flow problems, in being able to pay their tax obligations on time. In contrast, 68 participants (60%) suggested that they have either always settled their business tax obligations on time or, alternatively, if they are paying late, they are doing so before the ATO takes any recovery action. Given that late reporting and payment can be subject to fines and penalties, service SBOs were asked if they believed that paying tax late causes any negative consequences to their cash flow.¹³³

¹³¹ Australian Taxation Office, 'Management of Small Business Tax Debt' (30 May 2019).

¹³² Belle Isle et al (n 46).

¹³³ *Tax Administration Act 1953* (Cth) ('TAA 1953') ss 8C and 8E.

Table 7: Service SBO negative perception of tax concepts that influence cash flow

I think the following activities have a negative effect on me managing my cash flow	NA	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Numerous tax liabilities	15	8 (7.9%)	22 (21.8%)	25 (24.8%)	27 (26.7%)	19 (18.8%)
Paying taxes late	12	7 (6.7%)	15 (14.4%)	14 (13.5%)	55 (52.9%)	13 (12.5%)
Tax payment dates	13	11 (10.7%)	27 (26.2%)	33 (32.0%)	24 (23.3%)	8 (7.8%)

* Note: 'not applicable' is not included in the percentage calculations due to the other responses being part of a Likert scale (which are then used for statistical analysis).

The results shown in Table 7 demonstrate that 68 participants (65%) identify that paying and reporting a business tax liability after the due date can place extra strain on business cash flow. It is unclear if those not agreeing to the statement are aware that reporting and paying tax liabilities late can result in the ATO issuing a penalty of up to 20 penalty units.¹³⁴ A penalty can be charged on each occurrence that a business fails to comply and the current value of a penalty unit under Commonwealth Law is \$210.¹³⁵ Effectively this could suggest that a business could incur a penalty of up to \$4,200 on each occasion of being late lodging a business tax assessment. In respect to the influence of 'the number of tax liabilities' and 'the date for payment of tax liabilities', is perceived very negatively in terms of their effect on small business cash flow. Overall, just under one half of service SBOs feel that the number of business tax liabilities that they report and pay has a negative impact on the cash flow of their business. According to more than one-third of the service SBOs, the dates for payment of tax liabilities have no detrimental effect on cash flow relating to when business tax payments are due.

To determine whether service SBO perception of business tax systems is supported by actual literacy, statistical analysis was carried out on the tax perception statements compared to the four literacy scores. The results of simple linear regression testing at a significance level of .05 can be found in Table 8. The outcome of the testing implies that only one test of the twenty carried out, found a linear relationship between two variables. Paying PAYG withholding more often is linearly related to business tax literacy score, at the significance of .043. All other test results, as displayed in Table 8 show that service SBO perception is not significantly related to their literacy. This could suggest that service SBO perception is not driven by knowledge acquisition and might be more closely aligned to whether service SBOs envisage possible benefits or burdens of business tax concepts on their cash flow.

¹³⁴ *Tax Administration Act 1953* (Cth) s 8E.

¹³⁵ *Crimes Act 1914* (Cth) ('Crimes Act') s 4AA.

Table 8: The relationship between service SBO literacy (IV) and perception of how tax can influence cash flow (DV)

Literacy score, perception and the influence of tax on cash flow	Sum of Squares	df	Mean Square	F	Sig.
Paying PAYG Withholding more often would assist with management of cash flow (DV)					
Overall literacy score (IV)	3.08	1	3.088	2.079	.153 ^b
Business tax literacy score (IV)	5.775	1	5.775	4.221	.043 ^b
Financial statement literacy score (IV)	5.384	1	5.384	3.923	.051 ^b
CAS literacy score (IV)	2.163	1	2.163	1.445	.233 ^b
Paying SG more often (DV) would assist with management of cash flow					
Overall literacy score (IV)	.056	1	.056	.031	.860 ^b
Business tax literacy score (IV)	1.233	1	1.233	.722	.398 ^b
Financial statement literacy score (IV)	.182	1	.182	.106	.746 ^b
CAS literacy score (IV)	3.289	1	3.289	1.876	.175 ^b
The number of tax liabilities makes it difficult to manage cash flow (DV)					
Overall literacy score (IV)	.001	1	.001	.001	.981 ^b
Business tax literacy score (IV)	.445	1	.445	.295	.588 ^b
Financial statement literacy score (IV)	.132	1	.132	.087	.768 ^b
CAS literacy score (IV)	1.103	1	1.103	.665	.417 ^b
Reporting tax liabilities late is negative to cash flow (DV)					
Overall literacy score (IV)	.880	1	.880	.688	.409 ^b
Business tax literacy score (IV)	.286	1	.286	.235	.629 ^b
Financial statement literacy score (IV)	3.517	1	3.517	2.978	.087 ^b
CAS literacy score (IV)	.419	1	.419	.327	.569 ^b
The date that tax liabilities are due have a negative effect on cash flow (DV)					
Overall literacy score (IV)	.731	1	.731	.567	.453 ^b
Business tax literacy score (IV)	1.414	1	1.414	1.144	.287 ^b
Financial statement literacy score (IV)	.361	1	.361	.289	.592 ^b
CAS literacy score (IV)	.959	1	.959	.745	.390 ^b

* DV = dependent variable, IV = independent variable

D Service SBO literacy and CAS Usefulness to Understand Cash Flow

Previous research indicates that SBOs are not using their CAS to fully manage or understand their cash flow.¹³⁶ The survey, therefore, posed questions to service SBOs about their perception of the usefulness of CAS for cash flow and business management, to explore the perceived benefits received by participants. Service SBOs were initially asked if CAS was beneficial in helping to determine the cash flow position of their business. More than three-quarters of respondents affirmed that CAS is valuable in helping to determine the status of their cash flow (see Table 9). This result is comparable to the number of affirmative responses given in prior qualitative research, where 81% of participants recognised CAS as being instrumental in assisting their cash flow understanding.¹³⁷ The remaining participants suggested that they either do not recognise their software as being advantageous for determining cash flow or are unsure about whether there is a recognisable benefit.

Prior research also found that 100% of SBOs place significant importance on CAS for the effective operation of their business.¹³⁸ As a result, this relationship was explored in the survey, where service SBOs were asked if CAS was '*useful in ensuring the effective operation of their business*'. As illustrated in Table 9, the affirmative responses were not as strong as found in the qualitative study, although they were still high, with 81% of service SBOs suggesting that they recognise a benefit. The remaining 19% gave negative responses, with just over 10% being doubtful as to whether a benefit is received, and 9% denying that CAS contributes to the efficient operation of their business.

Table 9: Usefulness of CAS perceived by service SBOs

CAS is useful to	True N = 104 (%)	False N = 104 (%)	Unsure N = 104 (%)
Understanding cash flow position	79 (76%)	16 (15.4%)	9 (8.7%)
Effective business operation	84 (80.8%)	9 (8.7%)	11 (10.6%)
Accurate record keeping	101 (97.1%)	0 (0.0%)	3 (2.9%)

The final question explored whether service SBOs perceive CAS as assisting with '*maintaining accurate record keeping*'. Previous research demonstrates that small business experts suggest that small business record keeping is more reliable because of

¹³⁶ Belle Isle and Freudenberg (n 24).

¹³⁷ Belle Isle and Freudenberg (n 38).

¹³⁸ Ibid.

CAS.¹³⁹ The results of the survey are comparable to expert feedback, with almost all service SBO participants believing that their records are accurate due to recording transactions in CAS. These findings also support prior research, which acknowledged that SBOs recognised significant benefits from using CAS to maintain financially accurate records of revenue and expenses and of debtor and creditor invoicing.¹⁴⁰ This would suggest that CAS is perceived by SBOs as very important to help them understand their business, as well as keep accurate records.

The perceived benefit (or burden) of the use of CAS for cash flow management was then compared to the four literacy scores of service SBOs. It should be acknowledged that, for testing, one-way ANOVA (as an alternative to simple linear regression) was carried because the answer format was not in Likert scale for the CAS confidence questions.

For the first two statements, whether CAS is useful '*to understand the cash flow position of my business*' and '*for the effective operation of my business*' the results in Table 10 illustrate that a linear relationship only exists when CAS literacy score is compared to the responses for, CAS is useful '*for effective operation of my business*' at a significance result of .034. CAS is perceived as important for effective business operation, which supports related research that found a relationship between business performance (as measured by profit) and CAS literacy.¹⁴¹

Regarding the statement that CAS is useful '*for accurate record keeping*,' the test results in Table 10 show an unexpected outcome. The results in Table 10 show that a total of 101 'yes' and 3 'unsure' responses were recorded. Preparing the data for testing means the unsure responses are removed, which in this situation leaves all remaining responses as 'yes.' As a result, it is impossible to calculate a mean difference for this statement to compare the mean to the literacy scores. However, given the extent of 'yes' responses, it would appear that CAS is useful for accurate record keeping but it is not possible to establish its relationship with the literacy scores.

¹³⁹ Belle Isle et al (n 46).

¹⁴⁰ Belle Isle and Freudenberg (n 38).

¹⁴¹ Melissa Belle Isle, Brett Freudenberg and Tapan Sarker, 'Does tax literacy matter? The relationship between small business literacy and business performance and cash flow' (forthcoming).

Table 10: The relationship between service SBO literacy (IV) and perception of the usefulness of CAS for cash flow management (DV)

Literacy score, perception and usefulness of CAS for cash flow management	Sum of Squares	df	Mean Square	F	Sig.
To understand cash flow position (DV)					
Overall literacy score (IV)	4.743	33	.144	1.024	.457
Business tax literacy score (IV)	2.836	24	.118	.790	.736
Financial statement literacy score (IV)	.914	7	.131	.917	.498
CAS literacy score (IV)	2.394	10	.239	1.843	.065
For effective operation of my business (DV)					
Overall literacy score (IV)	2.496	33	.076	.792	.763
Business tax literacy score (IV)	2.105	24	.088	.990	.490
Financial statement literacy score (IV)	.439	7	.063	.693	.678
CAS literacy score (IV)	1.652	10	.165	2.091	.034
For accurate record keeping (DV)					
Overall literacy score (IV)	.000	33	.000	-	-
Business tax literacy score (IV)	.000	24	.000	-	-
Financial statement literacy score (IV)	.000	7	.000	-	-
CAS literacy score (IV)	.000	10	.000	-	-

* DV = dependent variable, IV = independent variable

E Overall

The findings suggest that there was a perception by SBOs that business records are more accurate due to their tax obligations, with the highest accuracy provided by PAYG-Withholding. At the other end of the spectrum, FBT as perceived to provide the lowest accuracy of business records. Service SBOs' perception was examined to investigate the importance that they place on the use of financial statements for cash flow management. The balance of the business bank account was considered the most useful source of information for cash flow management. After the bank balance, service SBOs had high regard for creating a cash budget for cash flow management purposes.

Two financial statements, the Statement of Cash Flow and the Profit and Loss Statement were equally valued, and the Balance Sheet was supported by more than three-quarters of participants. Comparison of service SBO literacy to their perception about the usefulness of financial statements for cash flow management predominantly confirmed that perception is not explained by service SBO literacy. Only one test of the sixteen

carried out resulted in a significant linear relationship, that between the Statement of Cash Flows and CAS literacy score. Considering that service SBOs place a high value on the use of financial statements for cash flow management, investing in the improvement of their literacy could be advantageous for increasing the use of financial statements in the future.

SBO perceptions was examined in relation to the usefulness of financial statements and CAS for cash flow management, along with the impact to cash flow of currently enacted and proposed tax administration concepts. SBOs affirm that all financial statements and CAS are useful for cash flow management. However, it should be acknowledged that the balance of the bank account and the preparation of a cash budget was more highly regarded as useful when compared to actual financial statements. For business taxation, SBOs believe that the multitude of tax payments complied with in each tax year can have unfavourable consequences to cash flow, as can paying tax liabilities after the due date. When perception was compared to SBO literacy, the results predominantly confirm that SBOs perception appears to be unrelated to SBO literacy.

Perception of service SBOs was then examined, with a focus on possible business tax administration concepts that could be implemented or that are currently in place to assist cash flow. Examination of perception was about whether cash flow is impacted by the multitude of tax liabilities and the dates those liabilities are due for payment. Service SBOs believe that having so many business tax liabilities is detrimental to cash flow, however, they do not agree that numerous tax liabilities have an unfavourable effect on cash flow. Service SBOs were asked to comment on whether remitting tax liabilities after the due date could result in negative consequences to cash flow. More than three-quarters of service SBOs perceived that this could be a likely outcome. Examined also was the possibility of whether paying a PAYG withholding and SG liability more often would be a favourable activity to help with cash flow management. Regardless of whether businesses reported monthly or quarterly for PAYG withholding, service SBOs did not perceive there would be any benefit to cash flow from initiating a more regular payment cycle. For SG, quarterly reporters suggested that reporting and paying their liability more often would not assist with managing cash flow. Comparing service SBO perception and literacy found that all tests resulted in a non-linear relationship except a linear relationship existed between paying a PAYG withholding liability more often and business tax literacy score. This suggests that service SBO perception of the way that business tax is administered cannot be explained by the level of literacy of service SBOs. This could imply that perception is influenced by other emotional factors¹⁴² that service SBOs have about business tax, rather than the knowledge they have acquired of business tax systems.

The perception of service SBOs was explored in terms of the usefulness of CAS for cash flow management activities. A significant number of participants identified CAS as being instrumental in allowing for accurate record keeping. More than three-quarters of participants agreed that CAS was advantageous for activities such as the usefulness of CAS to determine cash flow position and the effective operation of the business. When

¹⁴² Sally Dibb et al, 'Whose rationality? Muddling through the messy emotional reality of financial decision-making' (2021) 131 *Journal of Business Research* 826.

determining if the perception of service SBOs can be explained by their literacy, the test outcomes confirm that perception of CAS being useful for the effective operation of the business can be predicted by CAS literacy score. Testing of whether CAS is useful for accurate record keeping compared to literacy could not compute a result because all service SBOs confirm that they value CAS in performing this function. Note the CAS literacy scores were framed around what SBOs 'actions' were with CAS, compared financial statements and business tax literacy which focused on 'knowledge'. It may be that using some action-based questions may give a better indication of SBOs 'capability' in the relevant area. In recent times the notion of 'capability (compared to literacy) has arisen, as capability covers not only a person's understanding something but also the confidence and capability to actual use that knowledge.¹⁴³ Overall, in understanding the influence of literacy, it is not only about knowledge but also how that knowledge is used.

It is this 'real time' availability that could be a key to improved perceptions about the usefulness of information and statements. Recall that the bank account balance was perceived to be the most useful source of information for cash flow management, combined with the findings about the perceived usefulness of CAS, it is this 'real time' ability that appears to be most beneficial for SBOs. While the bank account balance is a rudimentary measure, if the CAS can be used to generate real time useful financial statements, then this could aid small business management.

VII LIMITATIONS AND FUTURE RESEARCH

There are several limitations to this study. Firstly, the meaning of the measures is self-reported by participants about their perceptions which may not be totally accurate to what occurs in practice. For example, this research is based on sensitive information related to small business management practices and the likelihood of SBOs engaging in the best possible activities to support the ongoing stability of their business. It is possible that some service SBOs may select answers that portray their ability or knowledge on a higher scale than that of reality due to their being self-conscious or concerned of their true capabilities. Similarly, CAS literacy were based on self-reported actions rather than being observed by the research team. Additionally, this research only considered SBOs in the service sector.

While this research provides some important insights there is need for future research. Future studies could focus on understanding SBOs perceptions of digital financial literacy and how it may influence their business. Also, future research could consider emotional factors about how SBOs consider the tax system, and whether this influences their perceptions. Furthermore, research could try to determine if there is a relationship with the literacies measured and tax compliance by SBOs.

Future research could consider if SBOs have a level of literacy to understand financial statements and if the importance they place on financial statements for cash flow management could potentially motivate them to increase their literacy in the future.

¹⁴³ Toni Chardon, 'Weathering the Storm: Tax as a Component of Financial Capability' (2011) 5(2) *Australasian Accounting Business & Finance Journal* 53; Elaine Kempson, Sharon Collard and Nick Moore, 'Measuring financial capability: an exploratory study' (Report, University of Bristol Personal Finance Research Centre, June 2005).

Research could replicate the United Kingdom study and do ethnographical work with SBOs over an extended period (six months) where SBOs are observed in their day-to-day operations and see how (and if) they use tax records and financial statements.

Given the findings for CAS literacy (with the statements based more on actions), it might imply that purely knowledge questions (as used for business tax and professional financial literacy) may not completely reflect the thorough literacy of SBOs. Future research could consider whether better measures of literacy could be developed.

Future research could consider if SBOs use business tax records (including income tax returns and BAS) to manage their business cash flow, rather than just meeting their tax obligations. Additionally, future research could consider if tax advisors discuss more than just tax obligations when meeting with SBOs to discuss what management insights the tax compliance is illuminating.

VIII CONCLUSION

Knowledge and perception may at times be related concepts. There has been concerns about the level of literacy of SBOs as to whether it was sufficient to allow them to run their business successfully. Also, there are concerns whether SBO perceptions towards certain factors could influence how they interact with financial statements and tax. This article reported a unique study of SBOs in Australia's service sector and compared to their perception in relation to the usefulness of tax records and financial statements. These perceptions were then compared to four literacy scores. There appeared to be little relationship between the four literacies scores considered and the perceptions measures. The only significant relationship found was CAS literacy score and that CAS is useful '*for effective operation of my business*'.

The business bank account was perceived as the highest rated financial instrument for cash flow management. Service SBOs also appear to value a cash budget, a Statement of Cash Flow and a Profit and Loss Statement for cash flow management. In support of the findings of prior qualitative research,¹⁴⁴ service SBOs suggest that CAS was of high importance for accurate record keeping, for determining the cash flow position and for the effective operation of their small business. In terms of business tax, service SBOs believe that the number of taxes that must be paid in each financial period and paying tax liabilities late can both have detrimental consequences for cash flow management. Generally, service SBOs do not perceive any benefit to cash flow management from increasing the payment cycle of tax liabilities, including PAYG withholding and SG. They also do not perceive that the date tax liabilities are due to be paid to the ATO is of concern to cash flow management.

This research provides us with some more insights into the potential relationship between SBO perceptions and their literacy. It is important that more research occurs to help better understand this important segment of the economy.

¹⁴⁴ Belle Isle et al (n 46).

APPENDIX A: OVERVIEW OF LITERACY QUESTIONS

Question overview: Questions related to the financial year ending 30 June 2018
Business Tax Literacy
The rate of Superannuation Guarantee for 2017 is 9.25%
For employees over the age of 18, Superannuation Guarantee only has to be paid for employees whose income per calendar month is \$450 or more.
Payment of Superannuation Guarantee is not tax deductible for the employer
The amount of super contributions to be paid is based on ordinary time earnings and does not include overtime.
I must hold a tax invoice for all goods or services that I claim GST input tax credits for if they are over the value of \$50 + GST
Businesses (excluding non-for-profits) should register for GST once their annual turnover is reaches \$100,000.
Prices for the sale of goods/services to a consumer in Australia should be displayed or quoted as GST exclusive.
If your receipt for purchasing fuel at a petrol station is \$80, the GST portion of that purchase is \$8.
A benefit provided to an employee's spouse will not be subject to Fringe Benefits Tax (FBT).
Generally, travel to and from work in an employer's vehicle is not considered as "private use" by the employee.
The cost of providing staff with a light lunch whilst at work is exempt from FBT.
The FBT reporting year runs from 1st July to 30th June
Individuals can claim a 25% discount on capital gains for assets held > 12 months.
An immediate deduction can be claimed for the purchase of work equipment for \$30,000 when it is used in the business over a number of years.
Generally, a deduction for mortgage interest can be claimed by a business operating from a home in accordance to the percentage area of the home that is used for business purposes.
If your business is GST registered then the business' assessable income for income tax will be excluding GST.
You can claim an immediate deduction for work clothing that you purchase from a supplier provided that it is made from durable material.
For a person on a 30% tax rate the 'after tax cost' of a fully deductible work related item of \$1,000 will be \$700.
For a person on a 30% tax rate who is entitled to a \$1,000 tax offset will save \$700 in tax.
PAYG Instalment offsets the final amount of income tax that the business has to pay at the end of the financial yr.
If you are required to pay a PAYG Instalment, you cannot vary the amount raised by the ATO from the assessment of your previous income.
The company income tax rate of 27.5% is available only for businesses with an aggregated turnover of \$2 million dollars or less in the 2017-2018 year.
Records should be kept for tax purposes for a minimum of 7 years.

PAYG Withholding and Payroll Tax are the same tax system.
If the business employs staff (or plans to) it needs to register for PAYG withholding within the first month of paying that employee.
Employers will never have to collect PAYG Withholding when they engage a contractor.
CAS Literacy
I create the following in the business computer accounting software:
Balance Sheet at least every 3 months.
Profit and Loss Statement at least every 3 months.
Statement of Cash Flows at least every 3 months.
Cash Budget at least once a year.
Reports for taxation at least every 3 months.
Reports for employee obligations eg. Superannuation and PAYG Withholding.
Which of the following activities do you regularly carry out in your business computer accounting software?
Automated invoicing.
Automated invoice reminders.
Processing invoices on a weekly basis.
Reconcile transactions monthly.
Financial Statement literacy
If you wanted to determine the liquidity (or solvency) of your business you would need to use information contained in both the Profit and Loss statement and the Balance Sheet.
Working capital is calculated by dividing Current Assets by Current Liabilities.
If you receive full payment for work completed you have made a profit on that job.
Gross Profit is a better indicator of how your business is performing than Net Profit
Examples of 'Current Assets' include: Cash at Bank, Trade Debtors, Short-term investments, Petty Cash & Stock.
The Cash Flow Statement can be separated into three areas of cash flow from operations, financing & investment.
A Cash Flow Forecast or Budget helps businesses to predict cash surpluses or shortages.

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