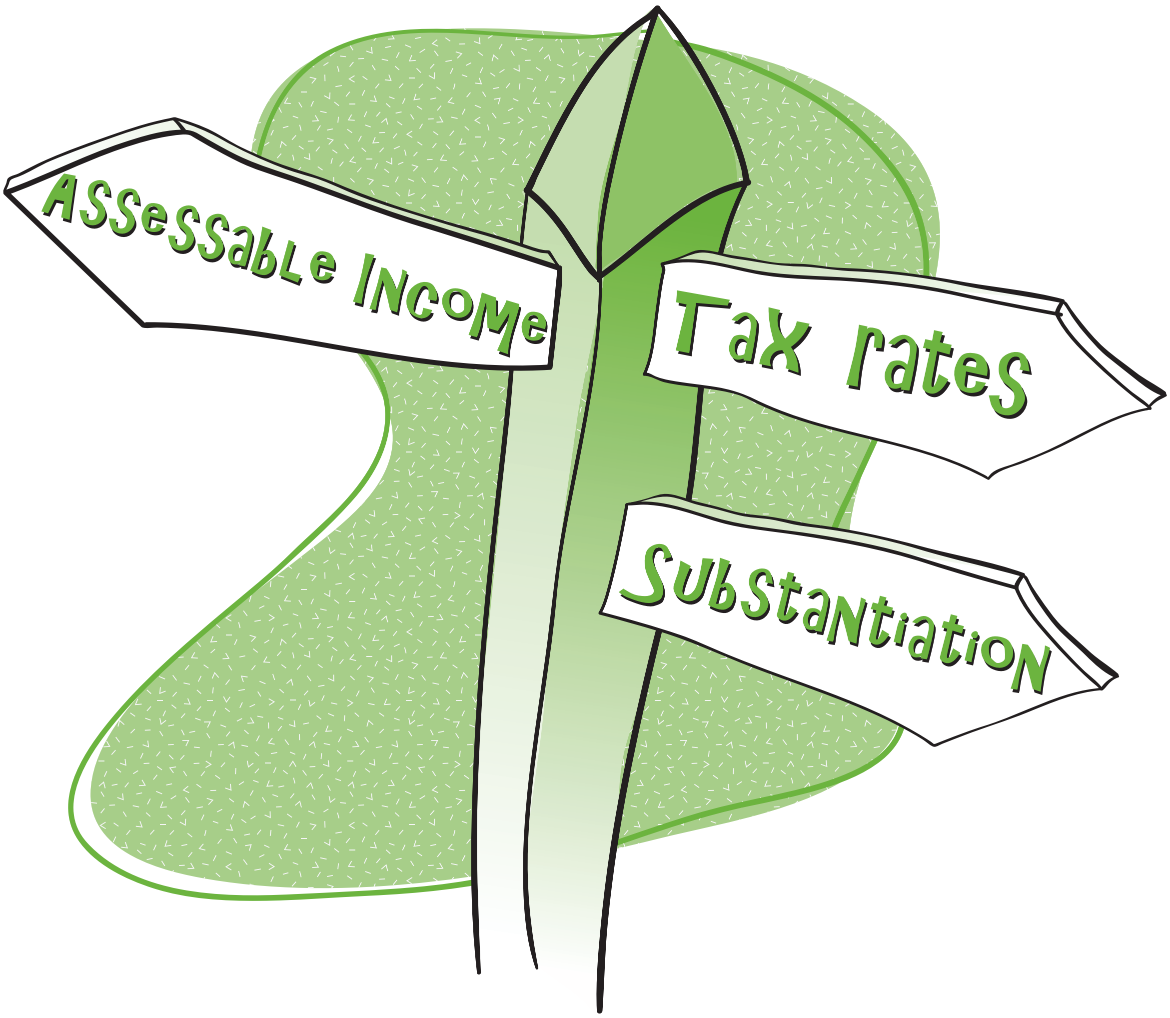
Australian Government
Australian Taxation Office

Introduction to tax

student's manual



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Introduction to tax: student's manual

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FOREWORD

As a student, you have a variety of talents and skills, and you may not yet be sure what direction your life will take after leaving school. One thing is certain, though. No matter what career you choose, you will have an ongoing relationship with the Australian Taxation Office (the Tax Office).

The Tax Office administers revenue systems – tax, superannuation and excise – on behalf of the Australian Government. We collect tax from taxpayers so that governments can pay for the services they provide to the community.

To ensure the system works efficiently and fairly, we provide you with the information you need to understand your rights and responsibilities within the tax system.

This manual provides part of that information and explains the types of interactions you will have with the Tax Office.

I wish you well for your future career and I know this manual will help you understand the tax system, your rights and obligations, and – perhaps most importantly – how your role in the tax system benefits the Australian community.

Michael D'Ascenzo

Michael D'Ascenzo
Commissioner of Taxation

CONTENTS

module A

Understanding tax

1 What is tax?

Tax is the money governments, particularly the federal and state governments, collect to pay for services they provide to the community. Tax is collected from individuals and businesses. The Australian Government collects the most taxes – for example, income tax, goods and services tax (GST), and company tax – to pay for services, such as social services, welfare and defence.

Income tax is the tax individuals pay on the money they earn. **Company tax** is actually income tax paid by companies, but is often called company tax to distinguish it from the income tax paid by individuals and other entities. There are a number of other types of taxes which will be discussed in more detail later.

Activity A1

Services are the facilities that governments provide to the community, for example, schools and transport. On worksheet A1 prepare a list of services that you think the various levels of government provide. Try to identify these as federal, state and local services. Discuss with a partner and others in the class to help you construct your list.

2 Why is it necessary to pay tax?

Governments need to fund the services they provide, such as education, hospitals, defence and roads. To do this, they must collect money which is called **revenue**, through the tax system. There are a number of different taxes within the tax system that are used to collect revenue from individuals and businesses.

If we did not pay tax, the government would have no money to provide services. As a result, we would live in a very different society from the one we currently have.

If asked whether it would be a good idea to get rid of taxes, most people would probably answer 'yes' as they would have more money of their own to spend. But, how would the government build new roads or hospitals? Or, what about people unable to get a job? The government would not be able to provide unemployment benefits, youth allowance or pensions. So how would they get money?

Activity A2

On worksheet A2, list ways in which revenue could be raised to pay for the services that governments provide to the community. Work in pairs to make a list of your suggestions. Are your suggestions 'fair and equitable' to all members of the community?

3 Who should pay taxes?

The government has decided that some groups in the community, for various reasons, do not have to pay income tax. For example, generally people who earn less than $6,000 per year do not need to pay any tax. This amount is called the **tax-free threshold**.

People who receive certain pensions, such as the disability pension, do not need to pay any tax because their income is classed as **exempt** from tax. A number of religious, charitable, scientific and educational organisations are also exempt from paying tax.

Activity A3

Find out the names of some tax-exempt organisations. On worksheet A3, prepare a list of other individuals or groups of people who you think should not have to pay tax. For example, should there be an age limit on paying taxes?

4 What are the different types of taxes?

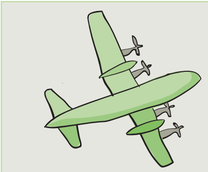
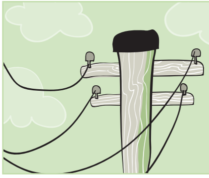
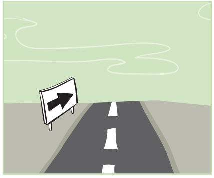
Our national constitution and the law define who can collect tax. In Australia there are three levels of government and each has the right to collect different taxes. The three levels of government are local, state and federal and they are entitled to collect (or 'raise') the taxes shown below.

Level of government	Taxes which can be raised
Local government	▪ property rates – based on the value of the house and land.
State government	▪ payroll tax – payable by businesses and based on their total wages bill (over a threshold amount) ▪ stamp duty – payable on certain types of transactions (such as buying property or cars) ▪ land tax – payable if an individual or business owns land valued over a certain level ▪ special purpose levies – payable for emergency services.
Federal government	▪ income tax ▪ Medicare levy ▪ company tax ▪ goods and services tax (GST) – payable on the supply of goods and services (this revenue is passed on to the states) ▪ fringe benefits tax (FBT) ▪ capital gains tax (CGT) – payable on gains made from the disposal of assets ▪ CGT is actually part of the income tax system, but it is often referred to as a separate tax because it has its own set of rules ▪ customs duty – payable on imports ▪ excise – payable on fuels, alcohol, tobacco and other goods ▪ departure taxes at airports ▪ special purpose levies – such as a levy on air passengers.

Under the Australian Constitution, only the federal government can collect customs duty and excise. Prior to World War II, each state and the federal government had its own income tax system. However, the federal government took over all responsibility for imposing and collecting income tax during World War II and this system has remained in place since then.

5 How do governments use the revenue they collect?

Each of the three levels of government has responsibility for providing certain services to the community. They are able to do this from the revenue they collect through taxation. Some of the services provided by the different levels of government are shown below.


Level of government	Services provided from the taxation revenue
Local government	■ sewerage and garbage collection ■ sporting fields ■ parks ■ libraries ■ kerbs and gutters.
State government	■ water ■ electricity ■ health care ■ education ■ transport ■ police ■ roads ■ subsidies for local government ■ the running of the state public services.
Federal government	■ defence ■ social security and welfare, family payments ■ health and ageing ■ education ■ immigration ■ trade ■ communications ■ currency ■ transport ■ subsidies for local and state governments to help pay for education, health, roads ■ the running of the Australian Public Service.

Activity A4

Answer the questions on worksheet A4(a) and fill in worksheet A4(b).

Activity A5

On worksheet A5 is a list of services provided by the federal, state and local governments. Identify which service area is provided by which level of government. Some services may be the responsibility of more than one level of government. In a number of cases, you have been asked to provide an example for each level.

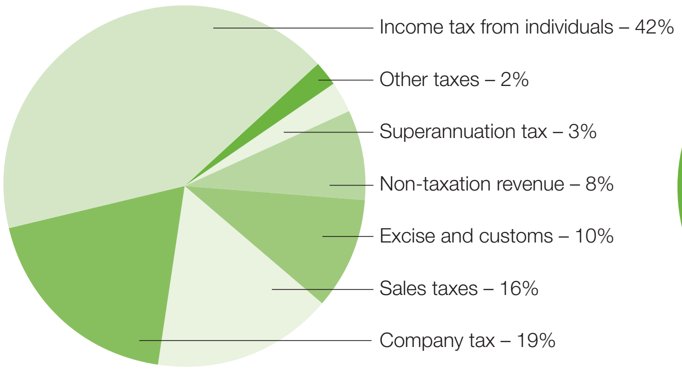
6 Does revenue always equal spending?

Every year, governments are required to prepare a budget to show how tax money will be collected (or 'raised') and how it will be spent.

The budget for the Australian Government is prepared by the Federal Treasurer and presented to Parliament. After the budget has been debated and approved by both Houses of Parliament, taxes are collected in line with the budget. The Tax Office does not decide on the levels of tax – it is a decision of the Parliament.

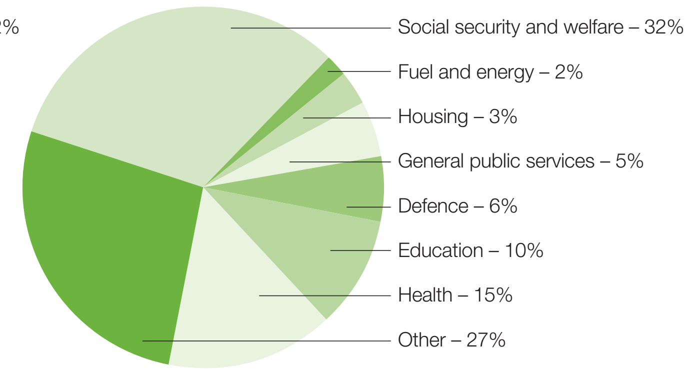
The following charts show the revenue (or 'budget income') collected through various types of taxes and the way this is spent by the government ('budget expenditure'). The charts are an example of budget versus expenditure.

Budget income



Sales taxes include GST, which is collected as a federal tax on behalf of the states.

Budget expenditure



'Other' includes expenditure for transport, communications, recreation, culture, public order and safety, agriculture, forestry, fishing, mining and other areas.

If there is not enough revenue coming in to cover all of the proposed spending, then decisions have to be made about how to solve the problem. The government could decide on one of the following options:

1. Cut spending so that revenue will cover expenditure. This raises questions, such as which services should be cut and how the community will be affected.
2. Increase taxes to allow spending to remain at the desired level. Who will pay the increased taxes? What type of taxes should be increased?
3. Keep taxes and spending as they are and borrow the money needed to cover the deficit (or shortfall). How will this money be repaid? What effect will the repayments have on the future levels of services?
4. Sell national assets to increase revenue. This is sometimes done to retire debt (that is, to pay back government borrowings).

Activity A6

Assuming there is not enough revenue to fund government activities, consider each of the options described above. On worksheet A6, list the advantages and disadvantages of implementing each one.

Activity A7

Occasionally, the government may have more revenue than it needs for its spending. This is called a budget surplus. The government may then decide to reduce some taxes or provide more services.

On worksheet A7, discuss whether it is better for the government to reduce tax levels, or to increase the level of services provided. Examine these two alternatives and list their advantages and disadvantages.

7 How much tax should be paid?

We have already seen that some groups in the community do not pay tax. The next consideration is how to work out what is a fair amount of tax to pay for an amount of income. Is it fair that everyone, regardless of their income and expenses, should pay the same amount of tax? Is it fair if those who earn the most pay the most tax? Consider the following three approaches to setting the tax to be paid:

Progressive taxes – the higher the income, the higher the percentage of tax paid. Income tax for individuals is a progressive tax.

Proportional taxes – the same percentage is levied, regardless of the level of income. Company tax is a proportional tax as the same rate applies for all companies, regardless of the profit earned.

Regressive taxes – the same dollar amount of tax is paid, regardless of the level of income. The levy on passengers at airports is a regressive tax.

Activity A8

Using the list of taxes provided in worksheet A8, decide whether they are progressive, proportional or regressive taxes.

8 What is the role of the Tax Office?

The Tax Office is responsible for the administration of the tax system in Australia. The task of the Tax Office is to collect the revenue payable under the law so the Australian Government can fund community services and provide support for the people of Australia. The aim of the Tax Office is that everyone pays the correct amount of tax at minimum cost.

The tax system works on **self-assessment**. The Tax Office uses the information provided on a tax return to issue a tax assessment, with a tax refund or tax bill. If the information on the tax return is correct, it is accepted by the Tax Office, usually without adjustment, and a **notice of assessment** is issued.

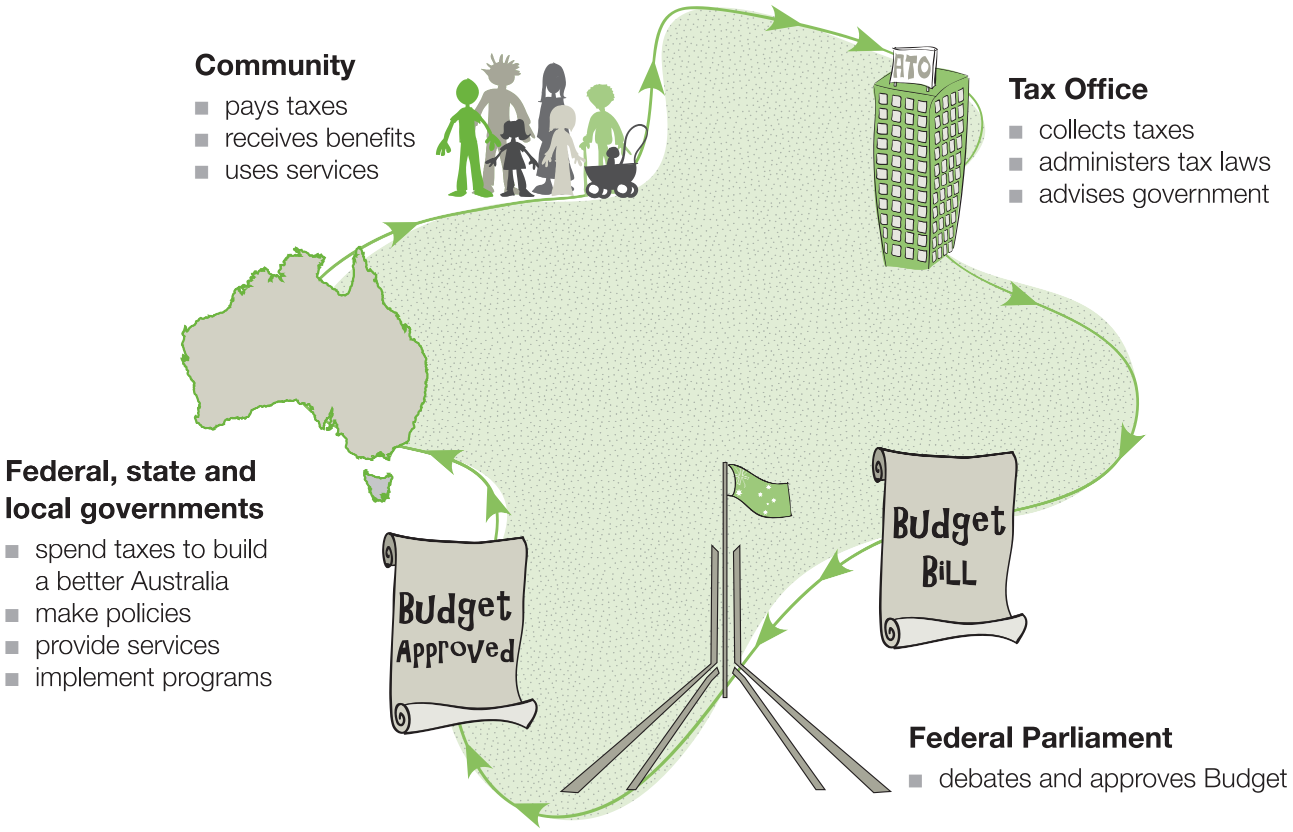
Even though the Tax Office may initially accept the information on the tax return, it may review the return later. To ensure the integrity of the tax system, the law provides the Tax Office with a period where it may review a tax return and may increase or decrease the amount of tax payable.

The Tax Office provides lots of information to assist various groups of the community on its website at **www.ato.gov.au** The website has a section specifically for young people at **www.ato.gov.au/youth** The information is designed to meet the needs of young people new to the tax system. It provides answers to questions commonly asked by people leaving school, starting work, or lodging a tax return for the first time.

9 Summary activities

The following diagram shows the relationship between the various elements of the Australian taxation system. It summarises what you have learnt so far.

The Australian taxation system



Now that you've completed Module A, below are two summary activities to try.

Activity A9

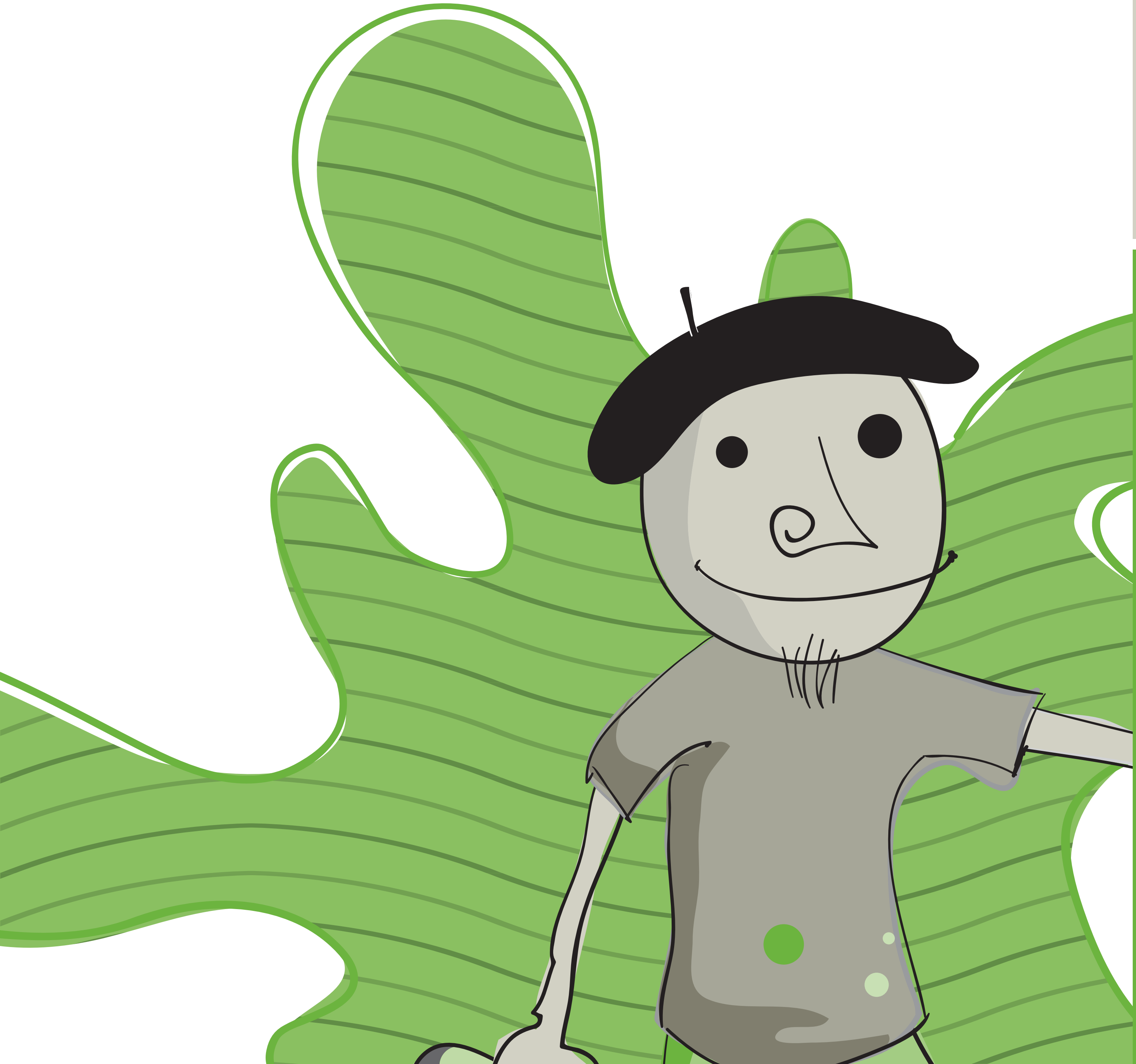
Answer the summary questions on worksheet A9.

Activity A10

Show your knowledge of terms by unscrambling each of the words or phrases on worksheet A10.

module B

Personal tax



As we saw in Module A, much of the federal budget revenue is derived from tax on personal income. This Module explains how personal income is taxed.

The tax equation diagram below shows how income tax is calculated. This will be explained as we progress through Module B.

The tax equation

ASSESSABLE INCOME
minus
ALLOWABLE DEDUCTIONS
equals
TAXABLE INCOME
multiplied by
INCOME TAX RATE
equals
TAX ON TAXABLE INCOME
minus
TAX OFFSETS
equals
NET TAX PAYABLE
plus
MEDICARE LEVY
equals
TOTAL AMOUNT PAYABLE
minus
TAX CREDITS
equals
REFUND or AMOUNT OWING

1 Income and assessable income

Income is generally defined as the regular receipt of money. Some examples of income are:

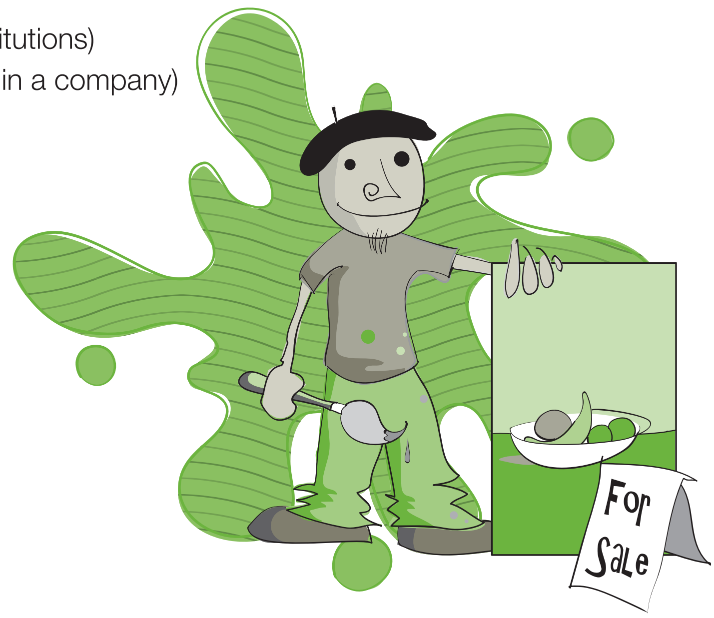
- wages and salaries
- welfare benefits (such as youth allowance).

Income can also be money received from property or investments, for example:

- rent
- interest (from banks and other financial institutions)
- dividends (profits received by shareholders in a company)
- capital gains (on the disposal of assets).

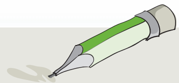
Income on which tax must be paid is called **assessable income**. However, not all money received by an individual is considered to be assessable income. The following are examples of money that is *not* assessable income and therefore no tax is paid:

- gifts
- pocket money
- inheritances
- lottery or prize winnings (or windfall gains).



Some people have a hobby that produces a small amount of income. Money received from a hobby is not considered to be assessable income unless the individual intends to create a business from the hobby. For example, if a person has a regular job and enjoys painting pictures as a hobby in their spare time, any income from the paintings they sell is not regarded as assessable income.

Activity B1



Refer to the table on worksheet B1 and decide which of the amounts listed would be assessable income.

2 Allowable deductions

The amount of your income on which tax is payable is called **taxable income**. This is calculated by subtracting any allowable deductions from your assessable income as shown in the following equation:

assessable income – allowable deductions = taxable income

Allowable deductions are expenses that you may incur in the course of earning income and can be used to reduce your assessable income. To claim deductions, though, there must be a legitimate link between the expense and your work. Private or domestic expenses are not allowable deductions. For example, travelling to work and buying lunch each day are private expenses.

Allowable deductions could include:

- the cost of tools and equipment used at work
- union fees
- the cost of acquiring, repairing and cleaning some types of work clothing (such as uniforms)
- some work-related travel costs (usually not including travel between home and work)
- self-education expenses where the course is work-related.

There are also a few allowable deductions not related to income-earning activities. Some examples are:

- the costs of preparing a tax return
- gifts or donations, of $2 and over, paid to an approved charity.

Allowable deductions reduce your taxable income. Consequently, they reduce the amount of tax you need to pay.

The important fact to remember about deductions is that they do not give a dollar-for-dollar tax saving. The tax saving is based on your marginal tax rate. For example, if your marginal rate is 30%, each dollar of allowable deduction reduces your tax bill by 30 cents, not by $1; and a $500 deduction would reduce your tax bill by $150.

Activity B2

Which of the expenses listed in the table on worksheet B2 are allowable deductions?

Activity B3

On worksheet B3 make a list of items that could be allowable work-related deductions for Anwar (a secondary school teacher), Jeremy (a hairdresser) and Katerina (an accountant).

Activity B4

Calculate the assessable income, allowable deductions and taxable income for Nisha, Jo and Miguel whose income and expenditure items are listed on worksheet B4.

3 Income tax rates

Income tax rates determine the proportion of taxable income which is paid as tax. They are expressed as a percentage or in cents per dollar. Tax rates for individuals vary, and increase as the amount of taxable income increases.

The more you earn, the higher your rate of tax will be. However, the higher rate is not paid on all of your income. The higher rate is paid only on the part of your income that falls over the threshold for that rate. The highest rate which applies to your income is called the **marginal rate**.

The income tax rates can be accessed via the **www.ato.gov.au** website. The table below shows tax rates for Australian residents for the 2009–10 financial year. The rates below do not include the Medicare levey. The Medicare levy will be explained further in Section 6 of this Module.

Tax rates for Australian residents from 1 July 2009 to 30 June 2010

Taxable income	Tax rate	Tax payable
$0 to $6,000	nil	nil
$6,001 to $35,000	15% (or 15 cents for each $1)	15 cents for every $1 over $6,000
$35,001 to $80,000	30% (or 30 cents for each $1)	$4,350 plus 30 cents for each $1 over $35,000
$80,001 to $180,000	38% (or 38 cents for each $1)	$18,000 plus 38 cents for each $1 over $80,000
Over $180,000	45% (or 45 cents for each $1)	$55,850 plus 45 cents for each $1 over $180,000

Note that no tax is paid on the first $6,000 of income for Australian resident taxpayers. This is called the **tax-free threshold** and it means that no tax is paid on the first $115 earned each week. Consider the following examples:

EXAMPLE A

If your taxable income is $20,000 per year, the tax is $2,100. This is calculated as follows:

Taxable income	Tax payable
$0 to $6,000	nil
$6,001 to $20,000	$20,000 minus $6,000 = $14,000 × 15% = $2,100
Total	$2,100

EXAMPLE B

If your taxable income is $36,000, the tax is $4,650. This is calculated as follows:

Taxable income	Tax payable
$0 to $6,000	nil
$6,001 to $35,000	$35,000 minus $6,000 = $29,000 × 15% = $4,350
$35,001 to $36,000	$36,000 minus $35,000 = $1,000 × 30% = $300
Total	$4,650

Activity B5

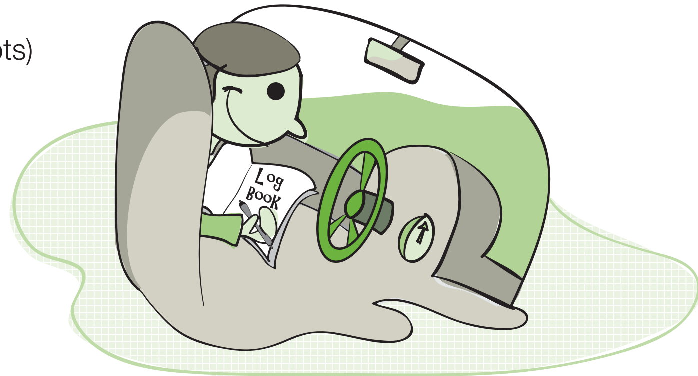
On worksheet B5 explain the tax-free threshold.

4 Substantiation

Substantiation is written evidence that a work-related expense was actually incurred by the person who is claiming the deduction.

A deduction for the expense can be denied unless the substantiation requirements are met. Employees must have written evidence to prove all claims when the total claims exceed $300. Substantiation can take the form of:

- documents (such as invoices and receipts)
- logbooks
- diary entries.



Documents that give proof must include:

- the name of the supplier
- the amount of the expense
- the date on which it was incurred
- the nature of the expense
- the date of the document.

Just because an expense has substantiation, it doesn't mean it is an allowable deduction. The expense must be incurred while earning income.

A logbook showing the distance travelled for work purposes may need to be maintained in order to claim car expenses. This must show, among other things, the odometer reading at the beginning and end of the trip, and the purpose of each trip.

Activity B6

As an example of a substantiation document, complete Invoice No. 4426 on worksheet B6.

Activity B7

Find and correct the four errors in the business travel logbook on worksheet B7.

Activity B8

On worksheet B8 prepare a list of allowable deductions that a member of your family could claim and the substantiation which could be provided.

5 Tax offsets

Tax offsets directly reduce the amount of income tax payable, on a dollar-for-dollar basis. That is, each dollar from a tax offset reduces your tax bill by one dollar.

Tax offsets are different from allowable deductions. Allowable deductions only reduce your assessable income. For example, if your marginal rate of tax is 30%, each dollar of allowable deduction will reduce your tax bill by 30 cents, not by one dollar.

Tax offsets apply only in specific cases. Some examples of situations that may qualify for a tax offset are:

- claiming for a spouse
- living in a remote area
- payment of private health insurance premiums
- medical expenses
- low income.

In most cases there are conditions that apply to claiming tax offsets. Not everyone is entitled to claim them.

6 Medicare levy

You may need to pay a **Medicare levy** in addition to the income tax payable. The Medicare levy is an amount payable by most taxpayers to cover some of the cost of the public health system. Normally, the Medicare levy is calculated at 1.5% of your taxable income.

For example, if your taxable income is $25,000 per year, the Medicare levy would be an additional $375 (that is, $25,000 × 1.5%).

The Medicare levy is added to your net tax payable.

The Medicare levy may vary depending on your circumstances. For example, the Medicare levy may be reduced for those on low incomes, and there are a few categories of people who are exempt from paying the levy.

Activity B9

Work individually or with a partner to answer the questions on worksheet B9.

Activity B10

Use the tax rate table to complete the activity on worksheet B10.

7 Under 18 tax rates

Special rules apply to the income of people under the age of 18 years. Under these rules, certain types of income may be taxed at a higher rate.

For example, if you receive income that is not the result of your own work (or **unearned income**), this may be taxed at a higher rate. An example of unearned income is money distributed to you through a family trust.

These higher tax rates were introduced to prevent the profit of a family business being distributed to children who had not contributed to the running of the business. The purpose of the distribution to children was primarily to reduce the overall amount of tax payable on the money controlled by the parents. This was a common tax avoidance technique before the introduction of these higher tax rates.

However, these rates do not apply to:

- income earned from part-time jobs
- Centrelink payments
- income from a business run by yourself.

The tax rates for unearned income of a person aged under 18 years are shown below.

The tax rates for people under the age of 18 years are reviewed every financial year and can be accessed via the **www.ato.gov.au** website.

An example of tax rates on unearned income for people under the age of 18 years is shown below. Note – these are example rates only and you should always refer to the website for current tax rates.

Tax rates on unearned income for people under 18 years

Unearned income	Tax payable
$0 to $416	nil
$417 to $1,307	66 cents for every $1 over $416
$1,308 and above	45 cents for every $1 of the entire amount

Activity B11

Complete the activity on worksheet B11.

8 Paying income tax

Employers are required to **withhold** (or keep) tax from your pay and send the tax withheld to the Tax Office regularly. When you lodge your income tax return, you will be entitled to a credit for the amount of tax which has been withheld from your pay. This amount is shown on your payment summary. Your employer works out how much tax to withhold based on information you provide in your **tax file number declaration** (refer to Section 9). This system is called **pay as you go (PAYG) withholding**.

One way of working out how much tax should be withheld from your pay is to use the PAYG withholding tax tables. Alternatively, you can use the online calculator on the Tax Office website.

Individuals who are self-employed do not have an employer to handle their tax payments. In these cases, the Tax Office sends out quarterly notices for 25% of the amount of tax the Tax Office has estimated will be payable over the year. This system is called **PAYG instalments**.

If you do not have a tax file number, employers need to withhold 46.5% from payments they make to you (ignoring any cents). For example, if a person earns wages of $200 per week, the weekly tax withheld by an employer using the 2009 PAYG withholding tables:

- with a tax file number is $1
- without a tax file number is $93.

Activity B12

Complete the activity on worksheet B12.

EXAMPLE: Calculating your tax refund or debt

Your salary and wage income was $36,700. You also had $700 in allowable deductions and $500 in tax offsets. Your employer withheld $5,100 in tax from your wages which they remitted to the Tax Office. This is your tax credit.

The following diagram shows how the tax equation is used to calculate your refund or amount owing.

ASSESSABLE INCOME	$36,700
minus	
ALLOWABLE DEDUCTIONS	$700
equals	
TAXABLE INCOME	$36,000
multiplied by	
INCOME TAX RATE	see example calculation*
equals	
TAX ON TAXABLE INCOME	$4,650
minus	
TAX OFFSETS	$500
equals	
NET TAX PAYABLE	$4,150
plus	
MEDICARE LEVY	$540
equals	
TOTAL AMOUNT PAYABLE	$4,690
minus	
TAX CREDITS	$5,100
equals	
REFUND or AMOUNT OWING	**$410** (refund)

* *Example B on page 13 shows how tax on taxable income is calculated (using the applicable tax rate).*

Activity B13

Use the tax rate table to complete the activity on worksheet B13.

9 Tax file numbers and how to get one

The **tax file number** (TFN) is the first step in becoming part of the tax system. A TFN is a unique nine-digit number issued by the Tax Office. It is given to a person or organisation (or other entity) to help identify them as a **taxpayer**.

Only one TFN is issued to you in your lifetime. If you marry or move interstate, your TFN does not change.

Without a TFN, employers need to withhold 46.5% from payments they make to you. This may also apply to any interest earned at the bank and other financial institutions. Without a TFN, it is not possible to get government benefits, and the Higher Education Loan Programme (HELP) payment options at university are limited.

It is a good idea to get a TFN as soon as possible. It is much easier to get one while at school using the *Tax file number application or enquiry for a secondary school student*. If your school does not participate in the TFN program, there is also an application process through the Tax Office.

Activity B14

Complete the *Tax file number application or enquiry for a secondary school student* provided by your teacher and read the information on the back of the application.

Your teacher may send the completed application to the Tax Office for you.

10 Tax file number declaration

When you start a job, your employer will ask you to complete a **tax file number declaration**. This form provides your TFN and other information so they can calculate the correct amount of tax to withhold from your pay and send to the Tax Office.

If you do not provide your employer with your TFN or claim an exemption, your employer must withhold 46.5% (the highest marginal rate of tax plus the Medicare levy) from any payment to you. You have 28 days to give your employer your TFN. The 46.5% tax withheld by your employer is not lost forever. You can lodge a tax return with your TFN to get the overpaid tax back. But throughout the year you would have had more tax deducted from your wages than would have been the case if your TFN had been given to your employer.

The tax file number declaration is what you use to claim the tax-free threshold. This is how the first $6,000 of your yearly income is not taxed.

If you have more than one employer or payer at the same time, you should claim the tax-free threshold from only one payer. For example, receiving youth allowance and having a part-time job is regarded as having two payers. In this instance you would not claim the tax-free threshold from your part-time job. To do so would be against the law and it could lead to a tax debt at the end of the financial year.

Activity B15

Correctly complete the tax file number declaration provided on worksheet B15.

Activity B16

Using the tax table attached to worksheet B16, calculate the tax Voula will pay in each of her jobs.

Activity B17

Complete the sentences on worksheet B17 using the words provided.

11 Tax returns

A **tax return** is the document you use to tell the Tax Office how much income you earned and any tax deductions or offsets you claim for the financial year. In Australia the financial year is from 1 July to 30 June the following year.

Generally, the only people who have to lodge a tax return are those who earn more than $6,000 throughout the year. However, individuals who have had tax deducted from their earnings need to lodge a tax return even if the amount they earn is less than $6,000.

Your employers will issue you with a **payment summary** after the end of the financial year. You will need to refer to the payment summary to find out how much you earned and how much tax was deducted from your income.

You should complete and lodge your tax return for the financial year (ending 30 June) by 31 October of the same year, unless you have been granted an extension or you are registered with a tax agent. If you don't lodge your tax return by the due date you may incur penalties and interest.

There are a number of services to assist people with lodging a tax return. These are described below.

e-tax

With e-tax you can lodge your tax return using the internet. The program can be downloaded from the Tax Office website **www.ato.gov.au** It is very simple to use and provides many help options. There are also built-in checks which can pick up any errors before the tax return is lodged. With e-tax, most refunds are paid within 14 days.

Phone lodgment

The phone lodgment service is a free service available to people with simple tax affairs. A shorter and simpler income tax return (the *Short tax return for individuals*) is completed, and the details are lodged over the phone. This is similar to phone banking.

Registered tax agents

Registered tax agents are people licensed to complete your tax return for a fee. The fee you pay to the tax agent is tax deductible.

TaxPack and *TaxPack Supplement*

TaxPack and *TaxPack Supplement* are guides on how to complete your tax return. They are printed publications that include the tax return forms. *TaxPack* and *TaxPack Supplement* are available from the Tax Office or most newsagents. The completed tax return should be sent to the Tax Office.

Tax Help

Tax Help is a free community service administered by the Tax Office to people on low incomes to help them fulfil their tax obligations. More information is available at **www.ato.gov.au**

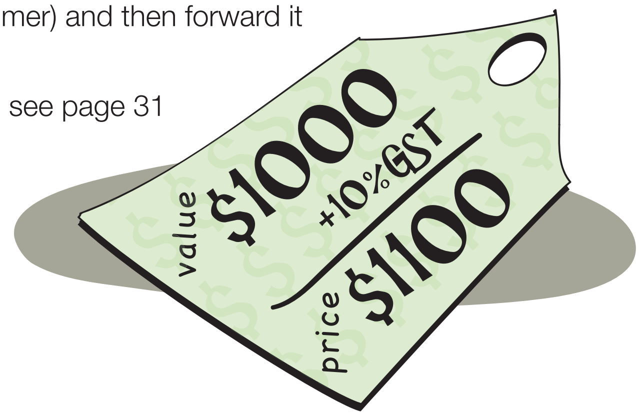
12 Goods and services tax

Goods and services tax (GST) was introduced on 1 July 2000. It is a tax on the supply of goods and services in Australia and on goods imported into Australia. All individuals are consumers and would therefore be paying tax on most things they consume. The introduction of GST was a major change in Australia's tax structure. In line with the new tax, there was a decrease in the personal income tax rates at the same time.

The GST is essentially a value-added tax. This means that tax is paid at each step along the chain of transactions from the maker to the end user who bears the cost of the tax. It is therefore called a consumption tax.

The GST is 10% of the value of the good or service and is included in the price. If you buy a bicycle from a GST-registered retailer for $1,100, $100 of this amount is GST. The retailer must collect the GST from the purchaser (consumer) and then forward it to the Tax Office.

For more information on how the GST operates, see page 31 and the **GST flow chart** on page 32.



Some goods and services are exempt from GST. The **GST-free** list includes:

- basic foods
- most education
- child care
- certain health goods and services.

Activity B18

Complete the GST-related activities on worksheet B18.

13 Capital gains tax

Capital gains tax (CGT) was introduced in 1985. It was introduced because some amounts taxpayers received were not covered by the income tax laws and so were tax-free. This was identified as being unfair, so laws were introduced to include these amounts known as capital gains into assessable income to be taxed under income tax law.

CGT is a tax on the profit from disposing of certain **assets**. These assets could include shares, rental properties, collectables (art and antiques) and the sale of businesses. The car and, in most cases, the family home are not subject to CGT.

Generally you make a capital gain when you sell or dispose of an asset for more than it cost to purchase. There is no special rate for CGT. The capital gain is added to the other assessable income and taxed at the applicable income tax rates.

The capital gain amount may be reduced by a discount provided you have owned the asset for at least 12 months. The discount is 50%. It applies only to individuals and trusts.

It is also possible to make a capital loss if an asset is sold for less than it cost. No tax is payable on a capital loss. The capital loss cannot be used to reduce assessable income. A capital loss can be used in some circumstances to reduce the capital gain made when another asset is sold. A capital loss can also be carried forward to future years to be offset against future capital gains.

EXAMPLE

Vicky purchased an investment property for $150,000 in 2000 and sold it for $250,000 in this financial year. The capital gain on the property is $100,000.

As Vicky has no other capital gains or capital losses to claim, her net capital gain for this financial year would be $50,000, that is $100,000 multiplied by 50% discount. Vicky will include the $50,000 in her taxable income that will be taxed at her personal rate of tax.

Activity B19

Calculate the total tax payable on the sale of a house on worksheet B19.

14 Fringe benefits tax

Fringe benefits tax (FBT) was introduced in 1986. Prior to the introduction of FBT, it was possible to avoid tax by receiving a benefit such as a car instead of wages. This was seen as unfair, so FBT was introduced to make it easier to tax the benefit.

FBT is payable on benefits provided by an employer to an employee because of their employment. The benefits can include the private use of a motor vehicle, non-business accommodation, payments of mortgage interest or school fees.

The employee does not pay FBT; the employer providing the benefit does.

15 Taxes on shares and other investments

People who own shares in a company are known as **shareholders**. Shareholders are entitled to a share of the company's profits. The profits are generally paid as **dividends**.

There are two types of dividends:

- franked dividends
- unfranked dividends.

Franked dividends are dividends paid by an Australian resident company from profits from which company tax has already been paid. That is, the company paid tax on its taxable income at the rate of 30% before distributing dividends. Dividends can be fully or partly franked. As tax has already been paid on the dividend, the taxpayer will be entitled to claim a credit for the tax associated with the dividend. This is called a franking credit.

Unfranked dividends are dividends paid by an Australian resident company from profits on which no company tax has been paid. There is therefore no franking credit associated with an unfranked dividend.

You must include the total value of the dividends in your assessable income. So for a franked dividend you show the amount paid to you plus the franking credit.

Like any other tax credit, your franking credit will reduce the total amount payable to the Tax Office, and any credit in excess of the total amount payable will be refunded to you.

16 Summary activities

Now that you've completed Module B, below are three summary activities to try.

Activity B20

Answer the questions on worksheet B20.

Activity B21

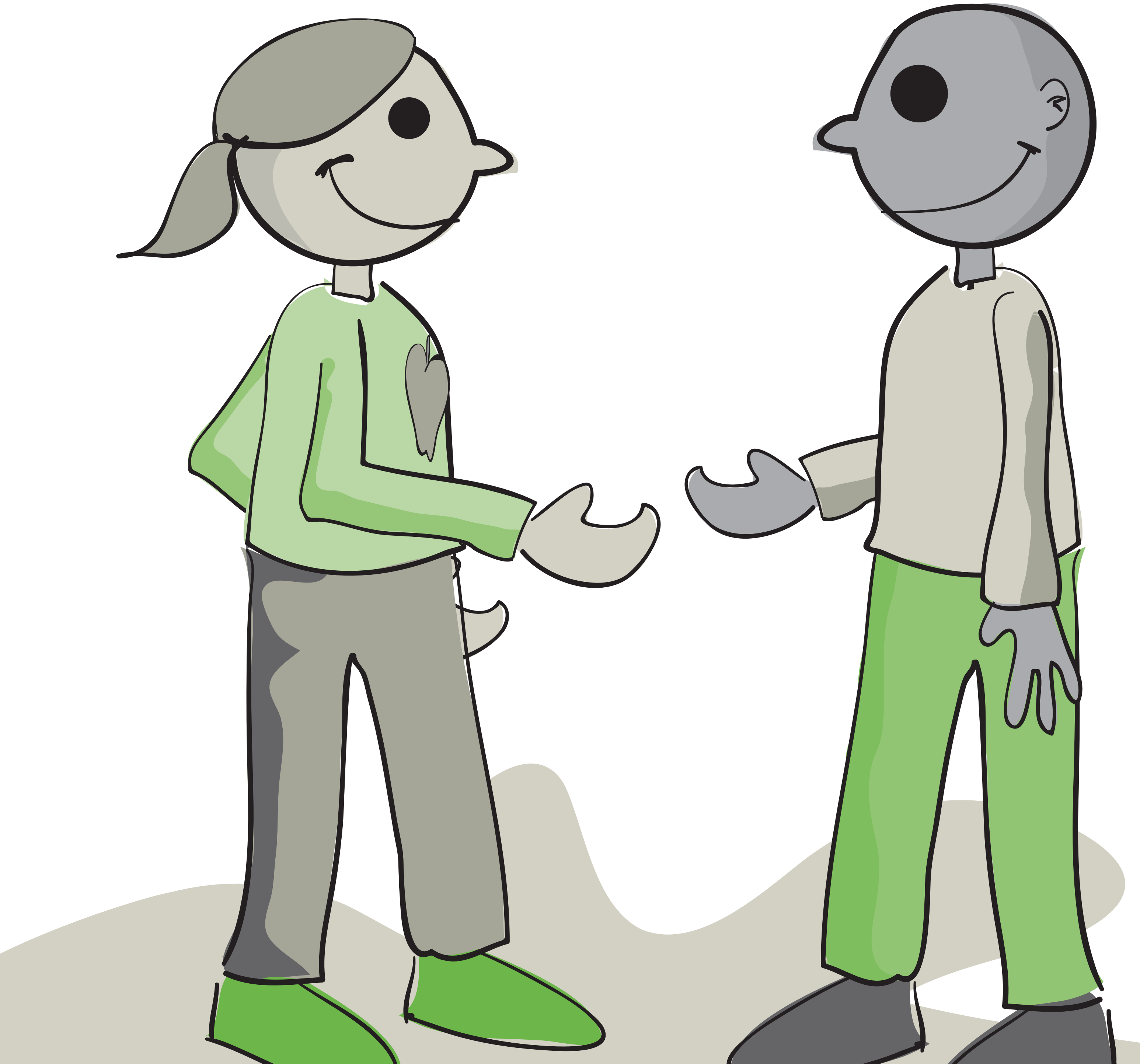
Show your knowledge of terms by unscrambling each of the words or phrases on worksheet B21.

Activity B22

Show your knowledge of terms by completing the crossword on worksheet B22.

module C

Business tax



1 Business or hobby

Activities that are intended to exist in the long term, and are set up with the intention to make a profit, are businesses. Profits earned by these types of activities are taxed. It is also possible for a business to make a loss that may be deducted from other income earned. However, if the activity has not been set up to make a profit or to exist in the longer term it is considered a hobby. Income earned by these activities is not taxed, and expenses cannot be claimed against other income earned.

For example, Madison loves horse riding. She has decided that she will set up a riding school to teach young people to ride. This will be her main occupation and is therefore considered to be a business.

If, however, Madison had a job as a bank teller and did a bit of teaching at weekends for children of friends, this would be a hobby. The income she gets from the lessons would not be subject to tax. She would not be able to claim any expenses for her hobby against her income as a bank teller.

2 Business structure

There are different ways to set up a business, each with its benefits and its drawbacks. It is therefore important to consider the different types of business structures available when setting up a business. The type of structure chosen is important as it affects the amount of tax payable on the business profits.

There are four main types of business structure:

- sole trader
- partnership
- company
- trust.

These are explained in Sections 3–6.

3 Sole trader

A **sole trader** is an individual who owns and runs a business alone. A sole trader may have employees, but the sole trader is the only person who owns and makes decisions for the business.

There is no separate legal identity for a business owned by a sole trader. The profit from a sole trader business is treated as personal income and must be included on the owner's individual tax return. The profit will be taxed at personal income tax rates.

The advantages and disadvantages of being a sole trader are outlined below.

Advantages	Disadvantages
▪ There are few formalities involved in setting up the business. ▪ It is inexpensive to set up. ▪ The sole trader has full control of the business. ▪ The sole trader receives the full benefit of profits made by the business. ▪ The sole trader keeps all of the gains if the business is sold.	▪ The business has a limited life span (it will cease to exist when the owner dies). ▪ There is limited access to finance – possibly limited to the resources of the owner. ▪ There is little chance of sharing the workload – sole traders have to do it all themselves. ▪ There is no one to share the losses with. ▪ The sole trader can lose private assets if the business goes into debt.

4 Partnership

A **partnership** is an association of persons who carry on business together. There can be more than two partners. As with a sole trader, there is no separate legal identity for the business. The profits are split between the partners and must be included on the individual tax returns of the partners. The partnership itself is not taxed although it must have a partnership tax file number and lodge a tax return showing how the profits or losses were distributed among the partners.

Losses from trading in a partnership are split among the partners and can be offset against other income. The partners must meet the debts of the business, whether they actually incurred them or not.

The advantages and disadvantages of being in a partnership are outlined below.

Advantages	Disadvantages
■ A partnership is inexpensive to set up. ■ There is greater access to finance – from the resources of all partners. ■ There are more people to share the workload. ■ There are more people to share the losses.	■ Profits must be split between the partners. ■ A partnership has a limited life span – the partnership ends when one of the partners leaves or dies. ■ All of the partners are responsible for the debts of the partnership – even if they did not directly incur the debt. ■ Partners can lose private assets if needed to settle debts of the partnership.

5 Company

A **company** has a separate legal identity apart from that of the owners. It is said to be incorporated (or given a body – from the Latin word *corpus*). The capital (funds) of the company can be contributed to by a large number of people called **shareholders**. If you buy a share in a business you become a shareholder and a part owner of the business. You are therefore entitled to a share of the profits. This share of the profits is called a **dividend**.

The shareholders are generally not liable for the debts of the business. This is called limited liability. The directors of the company, whether shareholders or not, can be liable for the debts of the company.

Companies can be listed on the stock exchange if they are public companies, and can have hundreds of shareholders. The reporting requirements of public companies are very strict because they are able to obtain capital (funds or money) from the general public. Private companies are not listed on the stock exchange.

A company must have its own tax file number, lodge its own tax return, and calculate its taxable income. It pays tax on its taxable income according to the company tax laws.

Companies are different to individual taxpayers as there is a flat tax rate of 30% applied to their taxable income. A company does not have a tax-free threshold. Tax is payable on the first dollar of its taxable income. There are no income tax brackets for companies.

The advantages and disadvantages of operating a company are outlined below.

Advantages	Disadvantages
▪ Shareholders are not liable for the debts of the business. ▪ A company has far greater access to capital (funds) for the running of the business. ▪ The life of the business is not dependent on the life of the shareholders – the company has an existence of its own. ▪ A company pays tax on its own profits.	▪ A company is expensive to establish. ▪ The reporting requirements of companies are greater than sole traders or partnerships. ▪ Shareholders often have very little say in the running of the business – it is limited to voting for the directors who control the company.

6 Trust

Trusts have a long history. They were originally established in the time of the Crusades to enable assets to be safely passed from one generation to another. Their primary role was one of asset protection. However, they also have a significant role to play in taxation.

A **trust** is an obligation on a person or company (known as the trustee) to hold property or assets on behalf of people who benefit from the trust (the beneficiaries).

There are several types of trusts. The two most common types are discretionary trusts and unit trusts.

In a **discretionary trust**, the trustee has the power to decide how the profit will be distributed among the beneficiaries. Family trusts are usually discretionary trusts.

In a **unit trust**, the profit is distributed according to the number of units held by the beneficiaries.

The trust must lodge a tax return, although in general, the trust does not pay tax. The beneficiaries who receive a distribution from the trust pay the tax. The profits can be distributed in a variety of ways to legally minimise the amount of tax paid. This is one of the main reasons why many family businesses are established as trusts. However, there are laws to ensure that business structures and income-splitting arrangements are not used to avoid paying tax.

The advantages and disadvantages of trusts are outlined below.

Advantages	Disadvantages
▪ There is the opportunity to minimise tax through the distribution of profits to beneficiaries. ▪ A trust has limited liability if the trustee is a company. ▪ A trust has perpetual existence and does not cease with the death of a beneficiary.	▪ A trust is expensive to establish. ▪ It is expensive to complete the required paperwork each year. ▪ Profits distributed to children under the age of 18 are taxed at a high rate.

Activity C1

Demonstrate your understanding of business structure by completing the activities on worksheet C1.

7 How business structure affects tax payable

Income from a sole trader business is taxed at personal income rates. This means there is only one amount of tax-free income ($6,000) and no opportunity for the owner to distribute the profit to any other party.

With a partnership, the profits are split among the partners, and will be taxed at each partner's personal income tax rate. Husbands and wives (or family members) may go into partnership to get lower tax rates when they split the income; however, there are also some special tests under the tax law to ensure they are really partners in business, and are not just using the structure to avoid tax.

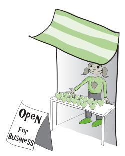
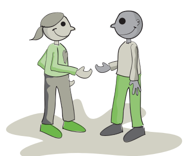
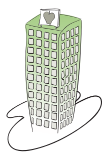
Companies lodge their own tax return and pay tax on their taxable income. The company's after-tax profits can be distributed to shareholders as fully franked dividends. If company tax has been paid on the company's income, the dividend is said to be franked, and a franking credit is associated with the dividend.

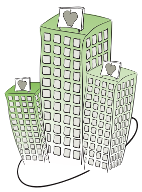
Trusts generally distribute their profits to beneficiaries who will pay tax at the personal income tax rates, including the special rates for children aged less than 18 years.

Note – the income tax rates shown below are examples only. You should always refer to the information on **www.ato.gov.au** for current tax rates.

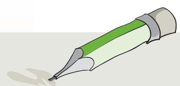
EXAMPLE

Hanna and Max run a business that earned $200,000 for the financial year. They spent $60,000 in allowable deductions. They are married and do not pay the Medicare levy surcharge as they have private patient hospital cover. The following table shows how tax is calculated depending on the type of business structure.

Business structure	Taxable income	Tax calculation	Tax payable
Sole trader (all profits included on Hanna's tax return)	$140,000	**Income tax on $140,000**	
		$0 to $6,000	nil
		$6,001 to $35,000	$4,350
		$35,001 to $80,000	$13,500
		$80,001 to $140,000	$22,800
		Medicare levy (1.5%)	$2,100
		Total	**$42,750**
Partnership (profits divided between Hanna and Max)	$70,000 (twice)	**Income tax on $70,000**	
		$0 to $6,000	nil
		$6,001 to $35,000	$4,350
		$35,001 to $70,000	$10,500
		Medicare levy (1.5%)	$1,050
		Total for each partner	$15,900
		Total ($15,900 × 2)	**$31,800**
Company (no salaries to Hanna or Max; profit not distributed)	$140,000	**Company tax on $140,000**	
		$140,000 × 30%	$42,000
		Total	**$42,000**

Business structure	Taxable income	Tax calculation	Tax payable
Company with directors' fees ($76,000 in total ie, $38,000 each in salary for Hanna and Max)	$140,000	**Company tax on $64,000** (ie, $140,000 minus $76,000) × 30%	$19,200
			$19,200
		**Income tax on $38,000**	
		$0 to $6,000	nil
		$6,001 to $35,000	$4,350
		$35,001 to $38,000	$900
		Medicare levy (1.5%)	$570
		Total for each director	$5,820
		Total for both directors ($5,820 × 2)	**$11,640**
		Total (company and income tax)	**$30,840**

In this example, the business structure that incurs the smallest amount of tax is the company with salaries to the directors. Trusts are not shown in this example, but are part of the following activity.



Activity C2

Use the spaces provided on worksheet C2 to do the calculations (for sole trader, partnership, company with no salaries, and company with salaries) for Joy and Brian. Compare the differences and provide advice to Joy and Brian about the tax implications of the various types of business structure.

Then, calculate the tax payable if their business was structured as a family trust. Does your advice to Joy and Brian need to change?

8 Starting a business

A person intending to start a business should first visit the website **www.business.gov.au**

The website provides information about:

- choosing a business structure
- registering a business name
- payroll tax
- employing people.

9 Australian business numbers

An **Australian business number** (ABN) is a business identifier for certain dealings with the Tax Office, other government departments and agencies, and between businesses. It is the number that an entity – sole trader, partnership, company or trust – uses to identify itself officially when dealing with other entities to which it provides goods or services.

Details of all ABNs are maintained in a public register called the **Australian Business Register** (ABR).

Businesses should include their ABN on all their stationery. If a business does not quote its ABN to another business, the paying business should withhold tax (but must register with the Tax Office as a withholder) at the top marginal tax rate plus the Medicare levy (46.5%).

10 The pay as you go system

The **pay as you go (PAYG)** system ensures that individuals and businesses pay their taxes on a regular basis throughout the year. A business must make provision to pay its own tax, generally quarterly.

A business must withhold amounts from payments made to employees (referred to by the Tax Office as payees), and forward this to the Tax Office. The Tax Office produces tax schedules for employers (or payers) which tell them how much **PAYG withholding tax** to deduct from employees' wages.

There are separate tables used to calculate the amount of PAYG tax payable. These take into account, for example:

- whether or not the tax-free threshold is claimed by the employee
- tax offsets for spouse and family
- Higher Education Loan Programme (HELP) debts.

At the end of the financial year, the business must issue a payment summary to each employee. The employee needs to refer to the payment summary when doing their tax return and keep the payment summary with their tax records.

The Tax Office credits employees for the amount of tax that is remitted by their employer. When employees lodge their tax return, the Tax Office calculates the amount of tax payable.

If more tax has been paid than necessary, the excess tax can be refunded to the employee. If the tax already paid is less than the required amount of tax payable, the employee must pay the extra amount.

11 Taxes a business must pay

The following are the main types of taxes that most businesses may have to pay:

- tax on income
- payroll tax
- fringe benefits tax
- capital gains tax.

These are explained in Sections 12–15.

There are other specialist taxes that relate to certain industries.

12 Tax on income

Taxes on taxable income earned by businesses can be calculated at either the personal tax rate or company tax rate, depending on the type of structure adopted. For example, sole traders pay personal **income tax** (see Module B).

Companies pay **company tax** which is 30% of the full amount of their taxable income – with no tax-free amount. If the company's profit is $1 for the year, it is liable to pay 30 cents in tax. If the profit is $10,000, the tax will be $3,000. This is a **proportional tax** as the rate is the same, whatever the level of the profit. Companies do not pay the Medicare levy.

In order to lodge tax returns, the business needs to have a tax file number (TFN). TFNs are explained in Module B.

Activity C3

On worksheet C3 calculate the tax payable by a company.

13 Payroll tax

Payroll tax is levied by state governments. It is a tax levied on the total of wages paid to employees. The amount owing is sent to the Office of State Revenue. Rates and exemption levels vary between the states.

Activity C4

Following the instructions on worksheet C4, find out the payroll tax rates in your state.

14 Fringe benefits tax

Fringe benefits tax (FBT) is payable on benefits provided by an employer to an employee in their employment. Some examples of fringe benefits include:

- the private use of a motor vehicle (the most common fringe benefit)
- non-business accommodation
- payment of mortgage interest or school fees.

The employer providing the benefits must pay the FBT. The employee does not pay it.

15 Capital gains tax

A capital gain occurs when an asset is disposed of or sold for more than it cost to acquire. **Capital gains tax** (CGT) is a tax on the profit made from the disposal or sale of certain assets such as:

- assets of the business entity (for example, a company, trust or partnership)
- real estate (but not the home you live in)
- shares.

There is no special rate for CGT. The capital gain is added to the other assessable income, and taxed at personal tax rate or company tax rate as applicable.

The capital gain may be reduced by a discount provided you have owned the asset for 12 months or more. The discount is 50%. It applies only to individuals and trusts. The discount does not apply to companies.

Activity C5

On worksheet C5 calculate the capital gain and the capital gains tax payable.

16 Goods and services tax

Businesses registered for **goods and services tax** (GST), collect GST when they sell their goods and services. They must remit, to the Tax Office, the GST they collect less any GST credit to which they may be entitled.

Registering for GST

A business must register for GST if its estimated turnover is $75,000 or more (or $150,000 for non-profit organisations) in any 12-month period.

Businesses with a turnover of less than $75,000 may choose to register for GST. If the business doesn't register for GST, it can't:

- charge GST to its customers, or
- claim GST credits on goods and services used in the business.

Adding GST to prices

The prices charged by a business that is registered for GST, must include GST. The business needs to make sure that 10% GST is added to the price that would have been charged without the tax.

The following examples show the different ways that GST is treated depending on the nature of the transaction.

EXAMPLE A

Sophie operates the shop 'Only Jeans'. She has calculated the selling price she requires on the jeans to be $100. She needs to add $10 (10%) to that price, as this is the amount to forward to the Tax Office after the sale. The total price is therefore $110.

If she had left her price at $100, she would keep only $91 for the jeans because 10% GST must be paid to the Tax Office ($9 in this case).

The displayed price of an article includes GST. So, it is possible to work out the GST portion by dividing the amount by 11.

EXAMPLE B

Sophie buys a cash register for use in her shop. The price is $1,100. If Sophie divides $1,100 by 11, she will find that the GST portion of the price quoted is $100.

A GST-registered business can claim back the GST paid for goods and services used in its business. So Sophie can claim this GST amount as a GST credit of $100.

It is necessary to have a tax invoice for purchases of more than $82.50 (including GST) before claiming GST credits.

EXAMPLE C

Because a GST-registered business can claim back the GST paid for goods and services used in its business, the net effect is that the final private consumer is paying the GST, as shown in the following flow chart.

GST flow chart – grower to consumer

			Tax Office
Grower Kelly Pine Plantation grows pine trees and sells the wood to a manufacturer for $44 including $4 GST.	GST less GST remitted previously GST to remit now	$4 $0 $4	Grower remits $4 GST to the Tax Office
wood			
Producer Tall Timber Pine Mills produces timber and sells the stock to a manufacturer for $66 including $6 GST	GST less GST remitted previously GST to remit now	$6 $4 $2	Producer remits $2 GST to the Tax Office
timber			
Manufacturer Fine Pine Products makes pine furniture and sells a table to a retailer for $154 including $14 GST	GST less GST remitted previously GST to remit now	$14 $6 $8	Manufacturer remits $8 GST to the Tax Office
table			
Retailer Fancy Furniture Pty Ltd sells the table to a consumer for $330 including $30 GST	GST less GST remitted previously GST to remit now	$30 $14 $16	Retailer remits $16 GST to the Tax Office
Net result Anne, a consumer now owns a table which cost her $330 including $30 GST collected by the retailer			**Net result** The Tax Office has collected $30 GST from the consumer, Anne

Activity C6

Do the GST calculations on worksheet C6.

Activity C7

Mark each of the statements about companies and taxes on worksheet C7 as true or false.

Tax invoices

Businesses must issue **tax invoices** to their clients for all goods or services of more than $75 (excluding GST). Tax invoices must show:

- the business name and ABN of the supplier
- the words 'tax invoice'
- the date
- a description of the goods or service, and
- the GST-inclusive price of each item.

For sales totalling $1,000 or more, the tax invoice must also show:

- the name and address or ABN of the client, and
- the quantity of each item.

Activity statements

At the same time as the government introduced GST, activity statements were introduced so that businesses could report GST to the Tax Office.

A business registered for GST uses a **business activity statement** (BAS) to report on the GST paid and collected. It also reports on PAYG taxes withheld from business income and employee wages, and on any fringe benefits taxes.

A business not registered for GST uses an **instalment activity statement** (IAS) to account for taxes.

17 Superannuation

Superannuation is a means of saving to provide a future income:

- after retirement
- following a serious disability, or
- for the family when the person dies.

Superannuation guarantee

For each eligible employee, employers must contribute (on a quarterly basis) an amount equal to 9% of the employee's earning base into a **complying superannuation fund** or a **retirement savings account** (RSA). Generally the earning base is what the employee earns for ordinary hours of work. Some employers pay more than 9%.

Some categories of employees are not entitled to superannuation contributions from their payer. This includes those who:

- earn less than $450 in a calendar month
- are under 18 years of age and work 30 hours or less a week
- provide work of a private or domestic nature for 30 hours or less a week (for example part-time nannies and housekeepers).

Employees can also make personal contributions to their superannuation fund or RSA on a voluntary basis to increase the amount available for them on retirement.

Any employer contributions and income that accrue in the superannuation fund or RSA are taxed at the concessional rate of 15%. This is to encourage individuals to plan for their retirement through superannuation. Investments outside of superannuation may be taxed at higher tax rates.

18 Records a business must keep

Maintaining good records is essential in managing a business effectively. They ensure that the business can meet its financial commitments, make decisions about the future, manage its tax obligations, and prepare annual income tax returns.

Under tax law, a person who carries on a business must keep records to explain all of its transactions and related activities. Generally, these records must be kept for five years. Records that refer to the acquisition or disposal of **assets** must be kept for five years after disposing of the asset.

Records that may need to be kept include:

- tax invoices
- cash books
- wages books
- stock records
- banking records
- motor vehicle logbooks
- diaries
- ledgers
- cash register tapes
- receipts
- journals
- depreciation schedules.

To ensure they are acceptable as evidence for tax purposes, each document must include:

- the date the document was prepared
- the date of the purchase
- the name and ABN of the supplier or service provider
- the cost of the purchase
- details of what was purchased.

19 How a business pays its tax

Paying your tax is an important community responsibility. Businesses should lodge their tax returns and activity statements by the due date or they may incur penalties and interest.

Penalties and interest may also apply if a business does not pay its tax on time. So budgeting is important to ensure they have the money available.

Businesses, including self-employed individuals, must calculate approximately how much tax will be payable and make sure that they have provided for the appropriate amount. It is important that the tax bill can be paid when it falls due.

The budget should take the following into account:

- PAYG withholding amounts may need to be sent to the Tax Office monthly or quarterly
- GST payments may be required monthly or quarterly
- income tax payments may be required quarterly.

20 Summary activities

Now that you've completed Module C, below are three summary activities to try.

Activity C8

Answer the questions on worksheet C8.

Activity C9

Show your knowledge of terms by unscrambling each of the words or phrases on worksheet C9.

Activity C10

Show your knowledge of terms by completing the crossword on worksheet C10.

glossary

age pension
a social security payment made by the Australian Government to Australian citizens who are over the qualifying age and meet the means tests.

allowable deduction
an expense incurred in the course of earning income and which can be used to reduce assessable income. Allowable deductions are sometimes simply referred to as deductions.

allowance
a payment made to an employee for special working conditions (such as danger, height), qualifications or special duties (such as first aid, safety officer), or for some other expense (such as travel or meals).

assessable income
gross income, including salary and wages, dividends, interest, and rent before any deductions are allowed. Assessable income also includes net capital gains and other amounts that are not ordinarily classed as income.

asset
any form of property.

Australian business number (ABN)
a business identifier for certain dealings with the Tax Office, other government departments and agencies, and businesses.

Australian Business Register (ABR)
a public register that contains details of all ABN registrations. In registering an entity, the registrar will allocate an ABN and record the applicant's details.

Australian resident tax rates
the tax rates that apply to taxable income for Australian residents. A higher rate of tax is applied to a non-resident's taxable income and they are not entitled to a tax-free threshold.

business activity statement (BAS)
businesses registered for GST use this single form to report their business tax entitlements and obligations, including GST, PAYG instalments, PAYG withholding and fringe benefits tax instalments. Tax credits can be subtracted from tax payable to arrive at a net amount. See also **instalment activity statement**.

business.gov.au
a whole-of-government website (**www.business.gov.au**) that provides information and services essential to planning, starting and running a business.

capital gains tax (CGT)
a tax on the profit made when disposing of, or selling, an asset, such as investment properties, shares and collectables. CGT may also apply in some circumstances other than sales. The net capital gain amount is added to ordinary taxable income, and income tax is then calculated on that total amount. A person's main residence (their home) and motor vehicles are exempt from CGT.

company
a business structure that gives shareholders (owners) limited liability (protection from having to pay for the debts of the company). It has a legal identity of its own as it has been incorporated.

company tax
income tax payable by companies. Unlike other entities, companies are taxed at a proportional rate of 30% on all taxable income, with no tax-free amount.

complying superannuation fund
a superannuation fund that has elected to be regulated under the *Superannuation Industry (Supervision) Act 1993* and complies with all the regulatory rules under that Act and the accompanying regulations.

customs duty
a duty or tax levied on goods imported into Australia.

dependant
a person who you look after and who needs your financial support, such as a child.

dividend
a distribution from a company to a shareholder, paid out of company profits.

electronic funds transfer (EFT)
a system whereby tax (or other) payments can be made electronically by direct credit, BPAY®, or direct debit.

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electronic lodgment service (ELS)
a system that allows participating registered tax agents to lodge their clients' tax returns and other tax forms with the Tax Office electronically, via modem.

enterprise
an undertaking organised for commercial purposes, including a business, but not including:

- private recreational pursuits and hobbies
- activities carried on as an employee, labour hire worker, director or office holder
- activities carried on by individuals (other than the trustees of charitable funds) or partnerships without a reasonable expectation of profit or gain.

entity
an individual, a sole trader, body corporate, company, corporation, partnership, trust or superannuation fund.

excise
a commodity-based inland tax on petroleum (including oil), tobacco and alcoholic products that the Tax Office administers. Excise is levied on the production of domestic goods, with an equivalent customs duty levied on similar imported goods. The Australian Customs Service administers customs duty.

excise tariff
The *Excise Tariff Act 1921* is the legislation that enables goods to be declared as subject to excise and determines the rate of duty for excisable goods.

exempt income
income that is not taxable.

expense
a cost or charge incurred in earning assessable income.

e-Record
the base-line product designed for businesses that operate on a cash basis of accounting and do not already use a commercially-available accounting package.

e-tax
a free software package developed by the Tax Office for individuals to prepare and lodge their tax return over the internet. The package can be downloaded to your personal computer.

financial year
any twelve-monthly period at the end of which a government, company, etc, balances its accounts and determines its financial condition. In Australia, the financial year runs from 1 July to 30 June of the following year.

franked dividend
a share of the profit (that companies pay to shareholders) on which tax has been paid.

franking credit
a credit paid to shareholders for the tax already paid on the profits that were distributed as dividends. Franking credits were formerly called imputation credits.

fringe benefit
a benefit received by employees from their employer in place of salary or wages such as the use of a car for private purposes.

fringe benefits tax (FBT)
tax payable on a non-salary benefit to an employee. The employer pays the tax, not the employee.

goods and services tax (GST)
a broad-based tax of 10% on the supply of most goods and services consumed in Australia. On 1 July 2000, the GST replaced wholesale sales tax.

gross salary
the amount of money earned by an employee before any deductions are taken into account.

GST-free supplies
goods and services on which no GST is levied.

Higher Education Contribution Scheme (HECS)
a system that was introduced to supplement funding of the Australian education system. It was incorporated with other loans into the Higher Education Loan Programme (HELP) on 1 January 2005.

Higher Education Loan Programme (HELP)
A suite of products (HECS-HELP, FEE-HELP and OS-HELP) was combined into HELP on 1 January 2005. From 1 July 2006 an accumulated 'HECS debt' became a 'HELP debt'. Repaying a HELP debt will be the same as repaying a HECS debt.

imputation credit
See franking credit.

income
the amount of money earned. It can be from personal exertion, investments, sales and capital gain.

income tax
the amount of tax paid on taxable income.

income tax rate
the proportion of taxable income which is paid as tax for a specified amount of taxable income. It is expressed as a percentage or in cents per dollar. For companies there is a single rate (30%) but for individuals and other entities the tax rate increases as the amount of taxable income increases.

Instalment activity statement (IAS)
a form similar to the BAS (but without GST and some other taxes) used by businesses not registered for GST, and individuals who are required to pay PAYG instalments or PAYG withholding such as self-funded retirees.

interest
money earned from investments of cash.

land tax
a tax paid to state governments on land that is not the private home.

limited liability
limited liability is the limit placed on the responsibility of shareholders to pay for the debts of the company. Sole traders and partnerships do not offer the business owner limited liability.

marginal tax rate
the rate of tax applicable to that part of your income which is in your income's highest tax bracket.

Medicare levy
an amount payable by most taxpayers to cover some of the cost of the public health system.

Medicare levy surcharge
an extra amount payable in relation to the Medicare levy. A liability for the Medicare levy surcharge arises where a taxpayer or dependant does not have private hospital cover and their taxable income exceeds the relevant income levels.

net amount payable
the total amount required to be paid to the Tax Office. It includes your tax payable and your Medicare levy if applicable, less the credits for tax offsets and PAYG amounts.

net tax payable
the amount of income tax required to be paid on your whole taxable income after applying tax offsets. It excludes Medicare levy.

notice of assessment
the notice sent to you after your tax return has been processed advising you of:
- the tax you owe, or
- your refund entitlement.

partnership
an association of persons who carry on business together.

pay as you go (PAYG)
a single integrated system for reporting and withholding tax on individuals, business and investment income throughout the year.

PAYG instalments
used by individuals and businesses to remit tax, such as tax on investment and business income.

PAYG withholding
used by employers to withhold income tax from employees and other workers.

payment summary
a statement issued to each employee by the employer at the end of the financial year (or when ceasing employment) setting out the gross income earned and the tax instalments deducted during the financial year.

payroll tax
a tax levied by state governments on the total wages, salaries and non-cash benefits paid to employees. The rates and exemption levels vary among the states.

penalties
The Tax Office can impose penalties for offences in relation to the Income Tax Assessment Acts, and the Tax Administration Act.

pension
a series of regular payments made as an income stream that, for example, may be provided by a superannuation fund (excludes age pension).

Privacy Act
an Act of Parliament that, among other things, protects tax file numbers against misuse.

progressive tax
a tax where the tax rate increases as the income (or the value of the taxed item) increases. Income tax for individuals is a progressive tax.

proof of identity
a significant document, like a passport or birth certificate, that proves you are who you say you are.

property rates
taxes levied by local government on property owners.

proportional tax
a tax where the tax rate is constant. GST and company tax are proportional taxes.

receipt
a document that confirms that you have made a payment. Just because you have a receipt does not mean you will be allowed to claim the amount as a deduction.

record keeping
taxpayers are required to keep records to support the claims made on their income tax returns. These records could include receipts, invoices and bank statements.

refund
an amount paid by the Tax Office to a taxpayer when the taxpayer has paid more tax than needed.

regressive tax
a tax charged at a set dollar amount, regardless of the value of the transaction. The levy on passengers at airports is a regressive tax.

reimbursement
an amount received by an employee from their employer for actual expenses incurred on behalf of the employer.

retirement savings account (RSA)
a savings account set up specifically for the purpose of retirement.

revenue
the income of a government (from tax, excise duties or other sources) used for the payment of public expenses.

self-assessment
the Tax Office issues a notice of assessment based on the information provided on your income tax return. You have an obligation under the law to make sure you have shown all of your income and only claimed allowable deductions and tax offsets.

shareholder
a person who owns shares in a company.

stamp duty
a tax levied by state governments on the purchases of certain assets, for example, property.

substantiation
written evidence of allowable deductions. Taxpayers must keep documents and records that can be used to prove they actually incurred the expenses they have claimed. These records must be kept for five years after they are claimed on a tax return.

superannuation
a system where money is placed in a fund to provide for a person's retirement.

superannuation fund
a fund or scheme for the future payment of benefits following retirement, serious disability or death.

superannuation guarantee
a prescribed minimum level of superannuation required under the *Superannuation Guarantee (Administration) Act 1992* that an employer must contribute for employees.

tariff
a tax on goods. It generally refers to excise or customs duty.

Tax audit
an investigation of your financial affairs to check that your income tax returns are correct. Tax audits are done to make sure you pay the right amount of tax.

Tax basics seminars for small business
a free tax seminar (formerly called Biz Start) run by the Tax Office for small business operators. The seminars provide a general overview of the various taxes that may affect the business, and are particularly useful for new or proposed businesses.

tax evasion
understating income or overstating deductions. Tax evasion is against the law.

tax file number (TFN)
a unique number issued by the Tax Office to individuals and organisations to increase the efficiency in administering tax and other Australian Government systems, such as income support payments.

tax file number declaration
a form that helps an employer work out how much tax to withhold from payments made to employees.

tax-free threshold
Australian residents, for taxation purposes, pay no tax on the first $6,000 taxable income for the full financial year. This is called the tax-free threshold. They may claim the tax-free threshold from one employer only. Non-residents cannot claim the tax-free threshold.

Tax Help
a program sponsored and administered by the Tax Office where trained and accredited volunteers from the general community assist low-income taxpayers fulfil their tax obligations. Tax Help is free.

tax invoice
a document generally issued by a supplier registered for GST. It shows the price of a sale, indicating whether it includes GST, and may show the amount of GST. It must show other information, including the ABN of the supplier.

tax minimisation
taking full advantage of the law to minimise tax liability. Tax minimisation is not against the law.

Tax Office
the Australian Taxation Office.

tax offset
an amount that is available under certain circumstances, which reduces the amount of income tax payable.

tax return
the form that taxpayers (or their legal representatives) complete and lodge annually with the Tax Office to report their income, tax withheld, deductions and tax offsets.

taxable income
assessable income minus allowable deductions.

TaxPack
the guide that contains information on how to complete a personal tax return.

taxpayer
any individual or entity required to pay tax.

Taxpayers' charter
the taxpayers' charter outlines the rights and obligations of the taxpayer, and the standards of service they should expect from the Tax Office.

threshold
the level above which the tax rate (or some other condition) changes.

trust
a trust exists when a trustee (person or company) holds assets for others (the beneficiaries) who are intended to benefit from the assets or income from those assets.

turnover
the amount of money taken in a business.

unearned income
income that is not the result of your own work, such as distribution of income to you through a family trust.

unfranked dividend
a dividend paid from the profits of a company on which Australian tax has not been paid. Unfranked dividends do not give any franking credits.

withholding declaration

a document that helps an employee calculate an entitlement to a family benefit or tax offset and authorises the employer to reduce or increase the amount of tax withheld from payments.

withholding tax

tax that is deducted at the source of the income. There are various forms of withholding tax:

- Employees are subject to PAYG withholding tax on their income, as are directors on their fees.
- TFN withholding tax applies to interest, dividend and royalty payments where recipients have not provided their tax file number.
- If a business does not quote its ABN to another business, the paying business should withhold tax (but must register with the Tax Office as a withholder) at the top marginal tax rate plus the Medicare levy (46.5%).

Introduction to tax is a resource for teachers and students in Years 7 to 10. It helps students to understand the Australian taxation system and their rights and obligations.

Student's manual

The student's manual is organised in three Modules.

Module A introduces the tax system and allows students to examine and discuss issues related to the collection and expenditure of tax revenue by all levels of government.

Module B focuses on personal tax. It provides information and exercises that enable students to become familiar with how tax is calculated, different types of taxes, and the tax forms and regulations they will encounter in the later years of their school life or on leaving school when they first begin to earn an income.

Module C is about business tax. It presents information on business structures, taxes and record keeping. Student activities involve students in the paperwork and calculations needed when running a business.

Teacher's manual

The teacher's manual provides the support a teacher will need to use the student's manual in class. It includes:

- links between the content of the resource and their state or territory curriculum
- details of the objectives for each Module
- student worksheets
- answers to all questions.

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