

Tax basics for small business

Information about your tax obligations and entitlements.



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We are committed to providing you with advice and guidance you can rely on, so we make every effort to ensure that our publications are correct.

If you follow our guidance in this publication and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we must still apply the law correctly. If that means you owe us money, we must ask you to pay it but we will not charge you a penalty. Also, if you acted reasonably and in good faith we will not charge you interest.

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You are protected under GST law if you rely on any GST advice in this publication. If you rely on this advice and it later changes, you will not have to pay any extra GST for the period up to the date of the change.

If you feel that this publication does not fully cover your circumstances, or you are unsure how it applies to you, you can seek further assistance from us.


We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for a more recent version on our website at www.ato.gov.au or contact us.

This publication was current at **June 2008**.


ABOUT THIS GUIDE


If you operate a small business as a sole trader, partnership, company or trust, you can use this guide to help you:

- the services we offer when you start your business
- working out if you are operating a business
- registering your business for tax purposes
- keeping proper records
- calculating income tax
- tax concessions for small business
- how GST works
- things to consider as an employer
- your super obligations
- your fringe benefits tax obligations
- activity statements
- income tax returns
- paying your tax
- things to consider as your business grows
- selling or ceasing your business.

 For more information about your tax obligations as a small business operator, refer to:

- *Record keeping for small business* (NAT 3029)
- *GST for small business* (NAT 3014)
- *Home based business* (NAT 10709)
- *PAYG withholding for small business* (NAT 8075).

Throughout this guide you will find important notes (look for the  symbol) that will help you with key information you should note.

You will also find 'more information' boxes (look for the  symbol) that will show any further steps you may need to take or supplementary information you may need to refer to.

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A QUICK TAX GUIDE FOR YOUR BUSINESS

Obligation	Do you need to apply or register?	How do you apply or register?
Tax file number	Individuals in business use their individual tax file number. Partnerships, trusts and companies need to apply for a separate tax file number.	You can complete and lodge an application for an ABN and TFN for a company, partnership or trust online at www.abr.gov.au
Australian business number (ABN)	If you are in business you may register for an ABN.	<div style="border: 1px solid orange; padding: 5px; margin-bottom: 10px;">  Individuals can't apply for a tax file number online. </div> You can also obtain tax file number and ABN application forms: <ul style="list-style-type: none"> ■ online at www.ato.gov.au or ■ by phoning 13 28 66 for a paper application.
Pay as you go (PAYG) instalments (towards your income tax)	You don't need to register.	Not applicable.
Goods and services tax (GST)	If you are carrying on a business (enterprise), you must register for and collect GST if: <ul style="list-style-type: none"> ■ your annual turnover is \$75,000 or more (\$150,000 or more if you are a non-profit organisation) or ■ you are otherwise required to register. You can still register if your turnover is less than this amount.	The ABN application form contains a section for registering for GST, wine equalisation tax, luxury car tax, PAYG withholding and fringe benefits tax.
Wine equalisation tax (WET) and luxury car tax (LCT)	You have to register only if: <ul style="list-style-type: none"> ■ you are in the wine industry and registered, or required to be registered, to collect GST or ■ you sell luxury cars. 	If you already have an ABN and need to register for any of these other obligations, you can do this: <ul style="list-style-type: none"> ■ online if you already have a digital certificate – visit www.ato.gov.au/onlineservices or ■ by obtaining the form <i>Add a new business account</i> (NAT 2954) online at www.ato.gov.au or ■ by phoning 13 28 66.
PAYG withholding	You must register for PAYG withholding if you make payments you have to withhold from, for example, payments of salary or wages to employees.	
Fringe benefits tax	You have to register for fringe benefits tax only if you provide benefits to employees and have to pay fringe benefits tax.	
Superannuation guarantee	You don't need to register, but every quarter you are required to pay a minimum level of superannuation for eligible employees. This includes directors and some contractors you engage). The minimum level is 9% of an employee's earnings base.	Not applicable.
Fuel tax credits	You may be able to claim fuel tax credits for fuel used in your business. There are some exceptions. You will need to register for fuel tax credits and must also be registered for GST.	The ABN application form contains a section to register for fuel tax credits. If you already have an ABN, phone 13 72 26 anytime (automated service – have your ABN and tax file number ready) or phone 13 28 66 .

What ongoing reporting responsibilities will you have?	When do you lodge and pay (or claim a refund)?	See page
You have to apply for a tax file number only once. If you carry on a business, you will be expected to lodge annual income tax returns.	Not applicable.	14
An entity (sole trader, partnership, company or trust) needs to apply for an ABN only once. If you carry on a business, we will send you activity statements. You must complete and return them by the due date.	Not applicable.	14
After you lodge an income tax return, we will tell you if you need to make PAYG instalments towards your income tax.	You report instalments on your activity statement and also have to lodge an annual income tax return. You report and pay PAYG instalments by the due date shown on your activity statement. You may have to make a balancing payment when you lodge your annual income tax return, which is usually due by 31 October.	15 and 24
Businesses registered for GST need to lodge an activity statement.	You report and pay GST, and claim any GST credits, by the due date shown on your activity statement. Most small businesses report GST quarterly, but some choose, or are required, to report monthly. Others may be eligible to report annually and pay by instalments, or report and pay annually.	15 and 40
You report any wine equalisation tax and luxury car tax liabilities on your activity statement.	You pay wine equalisation tax and luxury car tax by the due date shown on your activity statement.	16
You report amounts withheld from payments on your activity statement. You also have to lodge an annual payment summary statement.	You pay amounts withheld quarterly (smaller businesses) or monthly, when your activity statement is due. You may have to make a balancing payment when your annual <i>PAYG payment summary statement</i> is due by 14 August.	15 and 42
You may have to lodge an annual fringe benefits tax return and may have to pay quarterly instalments on your activity statement.	You may have to pay quarterly instalments when your activity statement is due. You may have to make a balancing payment when you lodge your fringe benefits tax return, which is due by 21 May.	16 and 48
If you don't meet your superannuation obligations you will have to pay the superannuation guarantee charge.	If you have not met your obligations in any quarter you will need to lodge a <i>Superannuation guarantee charge statement – quarterly</i> by the relevant due dates following quarter (28 Nov, 28 Feb, 28 May and 28 Aug).	45
You can claim fuel tax credits on your business activity statement (BAS).	You should lodge your business activity statement (BAS) by the due date shown on the form.	16

HAVE YOU GOT THE RIGHT ADVICE?

Once you have decided that you want to start a business, there are a number of information sources that can help get you off on the right foot:

- Talk to a financial adviser or small business advisory service
- Each state has different organisations that can provide significant free assistance. Ask your local council or state government office how to contact them, or look under 'Small business' in the phone book.

These organisations can help you plan your business and get access to the financial support you need.

Talk to successful people in a business similar to yours. What was their experience when they started and what did they do that made their business a success?

Research what other rules or regulations will apply to you. The internet is a great source of information if you are looking to start a business. Check out your local, state or federal government websites.

➤ You will find useful information for business at www.business.gov.au, including:

- business structures
- forming a company
- accessing finances
- business licences
- complying super funds
- payroll tax, and
- workers compensation.

WORKING OUT IF YOU ARE A BUSINESS

If you are in business:

- money earned from the activity is generally assessable income
- you are generally entitled to deduct expenses incurred in earning this income, and
- if the activity results in a loss, you may be entitled to offset the loss against other income or carry it forward to offset against future income.

If your activities are a hobby, the above points do not apply.

What is an enterprise?

You will often see the term **enterprise**, especially in relation to the ABN and GST. Basically, the term covers commercial activities but does not include hobbies or employment.

Businesses are referred to as enterprises for GST and ABN purposes, and so are the activities of charities and religious institutions.

Carrying on a business includes anything done in the course of **starting or ending** the business. Often the date of commencement is before the business starts to trade.

Characteristics of a business

Some factors or indicators that courts and tribunals have taken into account in determining if a business exists for tax purposes are listed below. While no one factor can be used to work out whether you are carrying on a business, taken together they should indicate whether your activity is a business.

- Does your activity have a significant commercial character? It is important to consider whether your activity is carried on for commercial reasons and in a commercially viable manner.
- Is there more than just an intention to engage in business? You need to have made a decision to commence business and have done something about it. If you are still setting up or preparing to go into business, you might not yet have commenced business.
- Do you have the purpose of profit as well as the prospect of profit? Do you intend to make a profit or genuinely believe that you will make a profit, even if you are unlikely to do so in the short term?
- Is there repetition and regularity to your activity? Businesses usually repeat similar types of activities, although one-off transactions can constitute a business in some cases.
- Is your business similar to other businesses in your industry? Is the way you operate consistent with industry norms or other businesses in your industry?
- What is the size, scale or permanency of your activity? Is the size or scale of your activity consistent with other businesses in your industry? Is it sufficient to allow you to make a sustainable profit?

- Is your activity planned, organised and carried on in a business-like manner?

This can be indicated by business records and books of account, a separate business bank account, business premises, licences or qualifications, and a registered business name.

EXAMPLE: Carrying on a business

Bill sells wooden toys from a retail outlet. His outlet is open the same hours as other retail outlets. He advertises in the *Yellow pages* as well as in regional toy magazines. He sells to clients within his region and to people who have seen his advertisement. He sells his toys at a price that enables him to make a profit. Bill would be considered to be carrying on a business.

EXAMPLE: Conducting a hobby

Tchen makes wooden toys at home. He works on the toys about six hours a week and sells them only to his family and friends. He intends his toy making activity to remain small and is happy if all he does is cover his costs.

Tchen's toy making activity would be considered a hobby. As such, Tchen would not include in his income tax return any amounts he received from selling his toys.

Consequently, he cannot claim any expenses related to his hobby.

➤ For more information, refer to *Am I in business?* (NAT 2598).

⚠ If you're a sole trader or partner in a partnership involved in a business activity that makes a loss, you must meet certain conditions to be able to claim that loss against your income from other sources (such as wages). See Non-commercial losses on page 38.

Are you a non-profit organisation?

A non-profit organisation is an organisation that is not operating for the profit or gain (either direct or indirect) of its individual members. These organisations are treated differently for tax purposes.

Examples of organisations that may be non-profit are churches, community centres, cultural societies, environmental protection societies, public museums and libraries, scholarship funds, sports clubs and traditional service clubs.

We have a range of publications and services specifically for non-profit organisations (including charities).

- For more information about non-profit organisations and their tax obligations:
 - visit the 'For Non-profit organisations' section of our website at www.ato.gov.au
 - phone **1300 130 248**.

When starting a business, it's very important to choose the business structure that best suits your needs.

There are four main business structures commonly used by small businesses in Australia:

- sole trader
- partnership
- trust, or
- company.

We can't advise which structure you should choose, but we can show you how different structures will affect the way your business income is taxed.

The structure you choose may affect your tax liability, asset protection, ongoing costs, or perhaps your clients – for example, some prefer to deal only with companies.

Whichever structure you choose, make sure you understand the responsibilities that go with that structure. Typically, costs and complexity increase as you move from a sole trader to a partnership to a company or trust.

You're not locked into any structure and you can change the structure as your business changes or grows.

The table on the next page shows the main features of different business structures. It may help you decide which structure is best for your business.

➤ For more information about business structures and responsibilities, visit the 'For Businesses' section of our website at www.ato.gov.au You can also contact the Office of Fair Trading in your state. Companies can obtain information from the Australian Securities and Investments Commission.

If you're not sure which structure to choose, talk to an accountant, tax adviser, solicitor or other business adviser.

FEATURES OF DIFFERENT BUSINESS STRUCTURES

Structure	Features
Sole trader	<p>Description: A sole trader is the simplest business structure and consists of an individual trading on their own. That person controls and manages the business.</p> <p>Tax file number: A sole trader uses their individual tax file number when they lodge their income tax return.</p> <p>ABN: A sole trader who is carrying on an enterprise in Australia may apply for an ABN for their business and use this number for all their business dealings.</p> <p>Who pays income tax: The income of the business is treated as the person's individual income and they are solely responsible for any tax payable by the business. This means that, after deducting allowable expenses, they include all their business income with any other income and report it on their individual tax return.</p> <p>Sole traders pay the same tax as individual taxpayers, according to the marginal tax rates (see page 24). Individuals who are Australian residents don't pay tax on the first \$6,000 they earn. This is called the tax-free threshold.</p> <p>Sole traders generally are required to pay PAYG instalments during the year towards their expected end-of-year tax liability.</p> <p>GST: A sole trader who is carrying on an enterprise may apply for GST registration. This can be applied for on the ABN application form. A sole trader is required to be registered for GST if their GST turnover is \$75,000 or more (\$50,000 or more prior to 1 July 2007).</p> <p>Drawings: A sole trader cannot claim a deduction for money they 'draw' from their business. Amounts taken from a sole trader business, and regarded by some as their 'wages' are not wages for tax purposes and are not tax deductible.</p> <p>Personal services income: If you are a contractor or consultant deductions in relation to this income may be treated differently (see page 37).</p> <p>Superannuation: Sole traders are responsible for their own superannuation arrangements and may be able to claim a deduction for personal superannuation contributions. Sole traders must pay 9% superannuation guarantee contributions for any eligible workers they engage.</p>

Structure	Features
Partnership	<p>Description: For tax purposes, a partnership is an association of people who carry on a business as partners or receive income jointly.</p> <p>Tax file number: A partnership needs its own tax file number and uses it when lodging its annual income tax return. This can be applied for on the ABN application form.</p> <p>ABN: If the partnership is carrying on an enterprise in Australia, it may apply for an ABN and use this number for all partnership's business dealings.</p> <p>Who pays income tax? A partnership is not a separate legal entity and doesn't pay income tax on the income earned by the partnership. Instead, each partner pays tax on their share of net partnership income.</p> <p>While the partnership doesn't pay tax, it does have to lodge an annual partnership income tax return to show all income earned by the partnership and deductions claimed for expenses incurred in carrying on the partnership business. The tax return also shows each partner's share of net partnership income.</p> <p>Partnerships are not liable to pay PAYG instalments. Instead, individual partners may be liable to pay PAYG instalments on their share of income from each partnership they are a member of (see PAYG instalments on page 25).</p> <p>Drawings: Partnerships cannot claim a deduction for money partners draw from their business. Amounts taken regularly from a partnership business, and regarded by some as their wages, are not wages for tax purposes and are not tax-deductible.</p> <p>GST: Partners may apply for GST registration for the partnership if it is carrying on an enterprise. This can be applied for on the ABN application form. A partnership is required to be registered for GST if its GST turnover is \$75,000 or more (\$50,000 or more prior to 1 July 2007).</p> <p>Personal services income: Income and deductions in relation to this income may be treated differently (see Personal services income on page 37).</p> <p>Superannuation: Partners in a partnership are responsible for their own super arrangements as they are not employees of the partnership. Partners may be able to separately claim a deduction for personal super contributions. The Partnership must pay 9% superannuation guarantee contributions for any eligible workers they engage.</p>

Structure	Features
Trust	<p>Description: A trust is an obligation imposed on a person to hold property or income for the benefit of others (who are known as beneficiaries).</p> <p>Tax file number: A trust must have its own tax file number to use when lodging its annual income tax return. The trustee needs to apply for a tax file number in its capacity as trustee of the trust. A tax file number can be applied for on the ABN application form.</p> <p>ABN: If the trust is carrying on an enterprise in Australia, the entity that is trustee may register for an ABN in its capacity as trustee of the trust.</p> <p>Who pays income tax?: Whether or not a trust has a tax liability depends on the type of trust, the wording of its trust deed and whether the income earned by the trust is distributed (in whole or in part) to its beneficiaries. Where the whole of the net trust income is distributed to adult resident beneficiaries, the trust will have no liability. Where all or part of the net trust income is distributed to either non-residents or minors, the trustee will be assessed on that share on behalf of the beneficiary. In this case, the beneficiary is required to declare that share of net trust income on their individual income tax return, and also claim a credit for the amount of tax liability paid on their behalf by the trustee. Where the net trust income is accumulated by the trust, the trustee will be assessed on that accumulated income at the highest individual marginal rate.</p> <p>If a trust is carrying on a business, each year all income earned by the trust and deductions claimed for expenses incurred in carrying on that business must be shown on a trust tax return. The tax return also shows the amount of income distributed to each beneficiary.</p> <p>Trusts are not liable to pay PAYG instalments. Instead the beneficiaries or trustees may be liable to pay instalments (see PAYG instalments on page 25).</p> <p>GST: If the trust is carrying on an enterprise, the entity that is trustee can register for GST in its capacity as trustee of the trust. This can be applied for on the ABN application form. A trust is required to be registered for GST if its GST turnover is \$75,000 or more. The registration threshold for non-profit organisations is \$150,000.</p> <p>Personal services income: Income and deductions in relation to this income may be treated differently (see Personal services income on page 37).</p> <p>Superannuation: Trusts must pay 9% superannuation guarantee contributions for any eligible workers they engage. This may include the Trustee if they are also employed by the Trust.</p> <p>Trusts may need to pay super contributions for trustees if they are also employed by the trust. A trust also needs to pay super contributions for other employees of the trust.</p>

Structure	Features
Company	<p>Description: An incorporated company is a distinct legal entity with its own income tax liability, separate from an individual's income tax. Companies are regulated by the Australian Securities and Investment Commission.</p> <p>A company is a more complex business structure, with set-up and administrative costs usually being higher than for other business structures. A company is required to have a separate bank account.</p> <p>For tax purposes, a company means a body or association, incorporated or unincorporated, but does not include a partnership or a non-entity joint venture.</p> <p>Tax file number: A company needs to apply for a tax file number and use it when lodging its annual income tax return. This can be applied for on the <i>ABN registration for companies, partnerships, trusts or other organisations</i> (NAT 2939).</p> <p>ABN: A company registered under the <i>Corporations Act 2001</i> is entitled to an ABN. A company that is not registered under the <i>Corporations Act</i> may register for an ABN if it is carrying on an enterprise in Australia.</p> <p>Who pays income tax?: If a business is run as a company, the money earned by the business belongs to the company.</p> <p>Under the self-assessment system, companies have to lodge an annual company tax return, which shows the income and deductions of the company and the company's income tax payable. Companies also usually pay PAYG instalments, which are credited against their annual income tax liability.</p> <p>A company pays income tax on its assessable income (profits) at the company tax rate, which is currently 30%. The amount of tax to be paid is reduced by any PAYG instalments reported during the year. There is no tax-free threshold for companies (see Tax free threshold on page 24).</p> <p>GST: A company may apply for GST registration if it is carrying on an enterprise. This can be applied for on the ABN application form. A company is required to be registered for GST if its GST turnover is \$75,000 or more (\$50,000 or more prior to 1 July 2007). The registration threshold for non-profit organisations is \$150,000 (\$100,000 prior to 1 July 2007).</p> <p>Personal services income: Income and deductions in relation to this income may be treated differently (see Personal services income on page 37).</p> <p>Superannuation: Companies must pay 9% superannuation guarantee contributions for any eligible workers they engage, including company directors.</p>

You will need to register your business for a number of tax obligations.

You can complete and lodge applications for most tax obligations:

- online at www.abr.gov.au
- through your tax agent
- by phoning **1300 720 092** for paper application forms.

You can also download TFN and ABN application forms. However, individuals operating as sole traders cannot apply for a tax file number online. If you don't already have a tax file number (TFN), phone **1300 720 092** for a paper application.

The ABN application form contains a section for registering for GST, wine equalisation tax, luxury car tax, PAYG withholding and fringe benefits tax. These obligations are explained below.

You can register for these obligations when you apply for an ABN, or at any later time. If you need to register later, you can do so:

- by registering online if you already have a digital certificate
- using the form *Add a new business account* (NAT 2954), available at www.ato.gov.au or order a form to be sent to you by phoning **13 28 66**.

COMMON BUSINESS TAX REGISTRATIONS

The most common tax registrations businesses needs are:

- a tax file number (TFN)
- an Australian business number (ABN)
- goods and services tax (GST)
- pay as you go (PAYG) withholding, and
- fuel tax credits.

WORKING OUT IF YOU NEED A TAX FILE NUMBER

If you have decided to operate your business as a sole trader, you use your individual tax file number for both your business and personal dealings with us.

Most people already have an individual tax file number, but if you don't, you will need to complete a *Tax file number application or enquiry for an individual* (NAT 1432) and send it to us. You can phone **1300 720 092** to have one sent to you.

If you have chosen to operate your business through a partnership, company or trust, you will need a separate tax file number. You can apply for a tax file number when you register for an ABN.

WORKING OUT IF YOU NEED AN AUSTRALIAN BUSINESS NUMBER

It is not compulsory to have an ABN, but having an ABN will:

- make it easier to register for GST and other business tax registrations such as PAYG withholding
- avoid having amounts withheld from payments to you. Businesses will be required to withhold 46.5% of any payments they make to you unless you quote an ABN.

Each entity (sole trader, partnership, company or trust) receives one ABN, regardless of the number of commercial activities or enterprises it undertakes. For example, a single entity running a cafe and a newsagency would have only one ABN. But if you set up separate companies, partnerships or trusts, each entity must register in its own right.


Australian business register (ABR)

If you are a partnership, company or trust, you can complete and lodge an application for an ABN and business TFN online at www.abr.gov.au

When you register for an ABN, the business details from your application are added to the Australian Business Register. The register is the central collection, storage and verification system for basic identity information about all businesses with an ABN.

You can log onto the register to check the bona fides of an ABN quoted to you to ensure you comply with the no ABN withholding rules.

You can also update your details online. To do this you will need a digital certificate. Changes made will be updated immediately once all details have been submitted and confirmed by the ABR.

 For more information about registering for a digital certificate, visit our website at www.ato.gov.au/onlineservices

The Australian company number and the ABN

If you choose a company structure, you will first need to register your company with the Australian Securities and Investments Commission. The commission will issue your company with an Australian Company Number (ACN).

When you register your company for an ABN, you will be asked to supply your ACN. The ABN issued to your company by the Australian Business Registrar will be the company's ACN plus two check digits at the beginning, as shown in the following table.

Australian business number



For more information visit www.asic.gov.au

! Put your ABN on your invoices

Put your ABN on your business stationery, especially your invoices. If you don't, other businesses must withhold 46.5% from any payment to you. Companies don't need to show both an ACN and ABN on their invoices.

WORKING OUT IF YOU NEED TO REGISTER FOR GST

You must register for GST if you are carrying on a business or enterprise, and:

- your current or projected GST turnover is \$75,000 or more (\$150,000 or more for non-profit organisations)
- you provide taxi travel, or
- you wish to claim fuel tax credits.

If your GST turnover is below \$75,000, you may choose to register for GST. You must continually monitor your turnover. As soon as you realise that your current or projected GST turnover is \$75,000 or more, you have 21 days to register.

! When registering for GST, you have to indicate whether you will account for GST on a cash or non-cash basis. Make sure you understand these terms before you register.

➤ For more information on GST and calculating your GST turnover for registration, refer to *GST for small business* (NAT 3014).

WORKING OUT IF YOU NEED TO REGISTER FOR PAYG WITHHOLDING

You need to register for PAYG withholding if your business makes payments you are required to withhold amounts from. For example, if your business:

- makes payments of salary, wages, commissions, bonuses or allowances to an individual as an employee (including yourself if you operate your business through a company or trust)
- makes payments to you as a director
- makes payments to contractors under a voluntary agreement (see page 42) or labour hire arrangement, or payments that are specified (for example, performing artists performing in promotional work), or
- withholds 46.5% from payments to suppliers because they have not quoted their ABN or shown they do not have to quote it.

! As a sole trader or partner, you are not an employee of the business structure. You get money from the business through drawings, not wages. There is no need to withhold from these drawings or register for PAYG withholding unless you are required to for other reasons, including those stated above.

If you don't withhold from a payment to a supplier who doesn't quote an ABN (but is required to do so), you may have to pay a penalty to us equal to the amount you didn't withhold.

You can register for PAYG withholding when you apply for an ABN or at any later time.

- For more information, refer to:
- *PAYG withholding for small business* (NAT 8075)
 - *No ABN withholding – questions and answers* (NAT 5931)
 - *Should your suppliers quote their ABN? A guide for business* (NAT 3346). This includes a statement that a supplier can complete to show why they don't need to quote an ABN.

OTHER BUSINESS TAX REGISTRATIONS

Other business tax registrations you may need are:

- fringe benefits tax if you provide fringe benefits to employees
- wine equalisation tax if you are a wine manufacturer, wholesaler or importer
- luxury car tax if you are a retailer, wholesaler or manufacturer of luxury cars, and
- fuel tax credits if you use eligible fuel in your business.

Superannuation

You don't have to register with us for super purposes, but you do need to offer your eligible employees a choice of super fund. If your eligible employees do not choose a fund you must pay their super contributions into the employer nominated fund.

Fringe benefits tax

If you are an employer and provide fringe benefits to your employees, you may have to pay fringe benefits tax.

We recommend you register when you have decided you will provide benefits.

Some common fringe benefits are:

- use of a work car by an employee or director, and
- paying private expenses for an employee or director, for example
 - health insurance costs
 - club memberships
 - school fees
 - holiday expenses, or
 - on-site accommodation.

➤ For more information about fringe benefits, refer to *Fringe benefits tax for small business* (NAT 8164).

Wine equalisation tax

Wine equalisation tax (wine tax) is a value-based tax of 29% on wholesale sales of wine, or an equivalent value when there is no wholesale sale.

Wine manufacturers, wholesalers and importers collect wine tax and send it to us. The Australian Customs Service collects wine tax on imported wine. Retailers will not have a wine tax liability unless they bottle or package wine for sale or make their own wholesale sales of wine (that is, to a reseller). The retailer is not entitled to a GST credit for wine tax.

- For more information, refer to:
- *Wine equalisation tax* (NAT 2962)
 - *Changes to the wine equalisation tax* (NAT 11759)
 - *The wine industry: how the use of invoices with a WEG label affects you* (NAT 5007).

Luxury car tax

Cars with a GST-inclusive value above the luxury car tax threshold (\$57,193 for 2007–08) are subject to luxury car tax. The luxury car tax threshold is equal to the car limit, which is reviewed each financial year and may change.

The 33% tax is payable on the portion of the GST-exclusive value of the car that exceeds the threshold.

Retailers, wholesalers and manufacturers of luxury cars may have a liability for luxury car tax. Importers (including private buyers) also pay luxury car tax.

➤ For more information on the luxury car tax threshold, refer to *Luxury car tax* (NAT 3394).

⚠ An increase in the rate of luxury car tax from 25% to 33% is subject to passage of measures announced by the Federal Government in the May 2008 budget.

Fuel tax credits

Fuel tax credits provide most businesses with a credit for the fuel tax (excise duty) included in the price of fuel used in business activities, tools, machinery, plant, equipment and heavy vehicles. The only fuels that are not eligible are fuels used in light vehicles of 4.5 tonne gross vehicle mass (GVM) or less travelling on a public road and alternative fuels.

This means most businesses can access fuel tax credits – it's just the rate that varies depending on how you use the fuel.

Alternative fuels including, LPG, LNG, CNG and ethanol will not be eligible for fuel tax credits until 1 July 2011. However, you may be eligible for a fuel grant under the energy grants credits scheme if you use alternative fuels in a vehicle with a gross vehicle mass of at least 4.5 tonnes travelling on a public road.

- For more information:
- phone us on **13 28 66** between 8.00am and 6.00pm, Monday to Friday
 - refer to
 - *Fuel tax credits guide for business* (NAT 14584)
 - *Alternative fuels* (NAT 15227).

CHANGING YOUR REGISTRATION DETAILS

Once you are registered, you must tell us if your details or business circumstances change.

You can update your registration details on the Australian Business Register at www.abr.gov.au or by phoning **13 28 66**.

If you have a digital certificate you can update your details on the Business Portal at www.bp.at.gov.au

CANCELLING A REGISTRATION

If you need to cancel your registration, phone **13 28 66** and we will help you work through what you need to do.

NON-TAX BUSINESS REGISTRATIONS

Your business may need other licences, permits or registrations to operate. Things you may need to consider could include the following.

Registering your business name

Most businesses will need to register their business or trading name.

You can carry on a business in your own name without registering a trading name if you don't change or add anything to your name. For example, if your name is John Smith, you don't have to register a name to trade as J Smith or John Smith. But if you trade as John Smith Landscaping, you need to register the name with the relevant government body in your state.

When you apply for an ABN you are asked to supply the trading name of your business. So make sure you register your trading name before you apply for an ABN.

- For more information, visit www.business.gov.au

Getting an Australian Company Number

If your entity is a company you need to apply for an Australian Company Number before applying for an ABN.

State government licences

Some businesses require licences to operate. These are usually issued by your state government. Most states have a small business department, which can tell you what licences you will need and how to get them.

Council permits

You may need a council permit to operate your business, for example, to use a building for a specific purpose, or sell food or dangerous goods. Check any requirements with your local council.

- For more information:
- visit business.gov.au the Australian Government's business resource website, or
 - check the White pages under 'small business'.

EXAMPLES: Registration**Alex****'All Electrical'**

Alex started his own business as an electrician on 1 July 2006. He does repairs onsite or at his workshop.

- Structure sole trader
- Expected turnover \$40,000
- Staff works alone

Business registrations for All Electrical:

<input type="checkbox"/>	Tax file number	Alex doesn't need a separate tax file number because, as a sole trader, he uses his individual tax file number.
<input checked="" type="checkbox"/>	ABN	Alex needs an ABN as he is going to register for GST and needs to quote an ABN when dealing with other businesses.
<input checked="" type="checkbox"/>	GST	Alex doesn't have to register for GST because his expected turnover is less than \$75,000, but he prefers to charge GST and claim GST credits.
<input type="checkbox"/>	PAYG withholding	Alex plans to work alone, with no employees. He can register later if he needs to (for example, if he needs to withhold from a supplier that doesn't quote an ABN).
<input type="checkbox"/>	Fringe benefits tax	Alex has no employees.

Alex can register for an ABN and GST:

- online at **www.abr.gov.au** or
- by phoning **13 28 66** to obtain an ABN application form.

He can't apply for a TFN online.

Renee Fashions Pty Ltd

On 1 July 2006 Renee started her own clothing shop, Renee Fashions. At the same time she created a company, Renee Fashions Pty Ltd, through which she runs the business.

- Structure company
- Expected turnover \$190,000
- Staff three (including Renee)

Business registrations for Renee Fashions Pty Ltd:

<input checked="" type="checkbox"/>	Tax file number	The company needs a separate tax file number.
<input checked="" type="checkbox"/>	Australian Company Number (ACN)	The company needs an ACN.
<input checked="" type="checkbox"/>	ABN	The company needs to apply for an ABN as it must register for GST and needs to quote an ABN on its tax invoices.
<input checked="" type="checkbox"/>	GST	Renee Fashions Pty Ltd must register for GST because its expected turnover is more than \$75,000.
<input checked="" type="checkbox"/>	PAYG withholding	As an employer, Renee Fashions Pty Ltd needs to register for PAYG withholding.
<input checked="" type="checkbox"/>	Fringe benefits tax	Renee plans to have private use of a company car, which is a fringe benefit.

Renee can obtain a tax file number for the company and register it for an ABN, GST and PAYG withholding:

- online at **www.abr.gov.au** or
- by phoning **13 28 66** to obtain an ABN application form.

YOUR REGISTRATION CHECKLIST

Use this registration checklist to record what tax registrations you need for your business and find out how to register.

Tick if you need to register	Registration type	Can you apply on your ABN application form?	Can you register online?	Who to call if you need help
<input type="checkbox"/>	Individual tax file number <i>(Only if you don't have one already!)</i>	<input checked="" type="checkbox"/> Complete a tax file number application form (NAT 1432) and send it to the Tax Office.	<input checked="" type="checkbox"/> Visit www.ato.gov.au to download the individual tax file number application form.	Tax Office 13 28 61
<input type="checkbox"/>	Partnership tax file number	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Visit www.abr.gov.au to register online.	Tax Office 13 28 66
<input type="checkbox"/>	Company tax file number	<input checked="" type="checkbox"/>		
<input type="checkbox"/>	Trust tax file number	<input checked="" type="checkbox"/>		
<input type="checkbox"/>	Australian business number (ABN)	<input checked="" type="checkbox"/>		
<input type="checkbox"/>	Australian Company Number <i>(For companies only – you need an ACN before you can apply for an ABN)</i>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Visit www.asic.gov.au to download an ACN application form.	Australian Securities and Investments Commission 1300 300 630
<input type="checkbox"/>	Business name	<input checked="" type="checkbox"/> See the department of justice, consumer affairs or fair trading in your state.	<input checked="" type="checkbox"/> Visit www.business.gov.au and follow the links to your state's application form.	Look under 'Business' or 'State government' in your phone book.
<input type="checkbox"/>	GST	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Visit www.abr.gov.au You can apply online while registering for an ABN. We may contact you for more information in relation to wine equalisation tax, luxury car tax or fuel tax credit.	Tax Office 13 28 66
<input type="checkbox"/>	PAYG withholding	<input checked="" type="checkbox"/>		
<input type="checkbox"/>	Fringe benefits tax	<input checked="" type="checkbox"/>		
<input type="checkbox"/>	Wine equalisation tax	<input checked="" type="checkbox"/>		
<input type="checkbox"/>	Luxury car tax	<input checked="" type="checkbox"/>		
<input type="checkbox"/>	Fuel tax credit	<input checked="" type="checkbox"/>		

Poor record keeping is one of the main reasons why many small businesses fail.

Good business records will help you manage your business, meet your tax obligations and make sound business decisions. They will save you time and money.

Specifically, good records will help you:

- work out your costs and profitability, and monitor your cash flow and stock
- demonstrate your financial position to banks and other lenders, or to prospective buyers of your business
- make best use of your accountant. Use their time for business and financial planning, not for sorting out your shoebox full of receipts and invoices
- complete and lodge activity statements and income tax returns
- make super contributions by the quarterly cut-off dates
- pay your tax on time.

LEGAL REQUIREMENT

The final reason for keeping good records is that the tax laws require you to. We can impose penalties if you fail to keep appropriate records. You are required to keep records that explain all your business transactions.

You must keep your records in writing in the English language. If you keep electronic records on your computer, they must be in a form that is readily accessible and convertible into written English.

Any books of account, records or documents related to preparing your income tax return must be retained for at least five years after they are prepared, obtained or the transaction completed (whichever occurs last).

Some records need to be kept for longer than five years:

- For capital gains tax, you must keep records for at least five years **after** the relevant capital gains tax event, for example, the sale of an asset. The purchase of the asset may have occurred many years before the disposal of the asset. To streamline record keeping you can choose to enter information from your CGT records into an asset register. For further details see the *Guide to capital gains tax* (NAT 4151).
- When claiming prior year losses, you must keep records relating to those losses for five years following the year **in which the loss is claimed**.

KEEPING MANUAL OR ELECTRONIC RECORDS

Good records are the foundation of a good business, so it's a good idea to have a suitable record keeping system ready to go from day one. If you need to, get some help to set up and manage your records.

Your record keeping system should be as simple as your business needs and capabilities allow.


You can keep your records electronically (on computer) or manually (on paper). Manual books are generally quicker to begin with and to enter information, but can be slower at the end of the month or at tax time when everything has to be totalled.

A variety of electronic record keeping packages is available. They can take more time to set up but provide advantages including automatically totalling amounts, printing invoices, and providing summary details for your activity statements and tax returns.

We provide a free electronic record keeping package, *e-Record*. Available in PC and Macintosh versions. *e-Record* is designed for businesses that operate on a cash basis, currently keep paper records and have one bank account.

 You can download a copy of *e-Record* from our website at www.ato.gov.au/erecord or by phoning **13 72 26** to order a CD-ROM (NAT 3043).

If you do decide to go electronic, make sure you choose a software package that meets your business needs and our requirements.

 If you are thinking about getting a tax adviser to help with your tax, talk to them before you choose a record keeping system so that they can advise you.

GENERAL RECORDS YOU NEED TO KEEP

Records you need to keep include:

Income and sales records

Keep records of all sales and barter transactions, for example, invoices, receipt books, cash register tapes and records of cash sales.

Expense or purchase records

Keep records of all business expenses, including cash purchases. Records could include receipts, invoices, cheque butts or credit card vouchers, and diaries to record petty cash expenses.

Bank records

Keep all bank records, such as bank statements and loan documents.

Asset purchase records

Keep details of what assets you buy and what you spend on those assets. An asset register can help you keep track of these expenses.

Contracts and agreements

Keep copies of contracts and franchise or other agreements.

Year-end records

These include creditors lists, debtors lists and worksheets for depreciating assets.

Minor deductible expenses

For certain work, car and business travel expenses, it is not always possible to get a receipt. But you can still claim the expense as a deduction as long as you record the details of these expenses in a diary or logbook.

➤ For more information, refer to *Record keeping for small business* (NAT 3029).

SPECIAL RECORDS YOU MAY NEED TO KEEP

As well as general records, you may need to keep other records, depending on your tax obligations or the type of expense.

GST records

The main GST records you need to keep are tax invoices and adjustment notes. Remember, you need a tax invoice to claim GST credits.

Also keep any other document that records an election, choice, estimate, determination or calculation made for the purposes of GST law.

➤ For more information, refer to *How to set out tax invoices and invoices* (NAT 11675).

Employee or contractor records

For employees or contractors, you need to keep:

- records of wages, allowances and other payments made to them
- superannuation guarantee records, including payments made and records that show you have met your choice of super fund obligations
- records of fringe benefits tax calculations
- copies of tax file number declarations or withholding declarations, and
- copies of any contracts you have with contractors.

Motor vehicle records

You may have to keep logbooks, lease or loan documents or yearly odometer readings for motor vehicles you use in your business.

Stocktake records

Businesses that sell goods usually have to do a stocktake (a physical count and valuation) at 30 June each year. Changes in stock levels are taken into account in working out taxable income for the year.

There are simpler stocktake rules available for small businesses with less than \$2 million turnover.

No ABN withholding

Keep statements by suppliers who have not quoted their ABN, records of any amounts you have withheld from them, and payment summaries you have given them.

! **Put your ABN on your business stationery,** especially on your invoices. The businesses you deal with need this information so they don't have to withhold the highest rate of tax from payments for supplies that you've made. If you're registered for GST, other businesses will also need your ABN on your tax invoice to claim GST credits for GST included in the price of goods and services you supply to them.

➤ For more information, refer to *Statement by a supplier (reason for not quoting an ABN to an enterprise)* (NAT 3346). This includes *Should your suppliers quote their ABN? ... a guide for business.*

Fuel tax credit

To support your claims for fuel tax credits, you must keep records that show you:

- acquired the fuel
- used it in your business, and
- applied the correct rate when calculating how much you could claim.

You must keep these records for five years after you make the claim.

If you are claiming fuel tax credits of \$300 or less in a financial year, you do not have to keep records of fuel purchases.

➤ For more information, refer to *Take credit where it's due – register for fuel tax credits* (NAT 15397).

RECORD KEEPING TIPS

Tip 1: Use the record keeping evaluation tool

This is a free, interactive software program that will help you understand what records you need to keep and evaluate whether your record keeping practices are adequate.

It provides a list of records tailored specifically for your business, a report on how well the business is keeping its records, and suggested improvements where appropriate.

We cannot access the information you enter in the tool.

➤ To download the record keeping evaluation tool, visit our website at www.ato.gov.au/recordkeeping

Tip 2: Set up a good filing system for your records

This will help you keep the right records and have them available when you need them. Get into a routine and do your books regularly.

Tip 3: Fill in cheque butts in detail

Write enough information on your cheque butts so that later on you (or your accountant) can understand what the payment was for.

Tip 4: Clearly separate business and private expenditure

It is advisable (and usually easier) to keep business and personal banking in separate accounts. If you have a company or trust, it is a legal requirement. Avoid paying personal expenses from your business account.

Tip 5: Cross-reference your transactions

When you pay bills, write the invoice number on the cheque butt, and the cheque number on the invoice. This will help you track down information if any problems arise later.

Tip 6: Regularly reconcile your cash book entries with bank statements

Reconciling your accounts helps detect errors or omissions. It could save your accountant time which will save you money.

Tip 7: Avoid keeping mountains of cash register tapes

If you use a cash register you may discard your cash register tapes after one month, provided you keep Z-totals and they have been reconciled with actual sales and banking for the period. Otherwise, you must keep the full rolls for five years. The Z-total is the figure printed by the cash register showing the total of all recorded takings for a day.

➤ For more information, refer to *Record keeping for small business* (NAT 3029).

SELF-ASSESSMENT

Australia's income tax system works on the self-assessment principle. This means we initially accept the accuracy of the information you provide, and calculate your tax liability on this basis.

Later on we may ask you to show records to support your information, so it's important to keep the necessary records to verify your claims (see 'Keeping good records' on page 20).

Income tax is levied on the taxable income of a person or business, which is worked out using the following formula:

Assessable income minus allowable deductions = taxable income (the amount you pay tax on)

ASSESSABLE INCOME

Most money you receive in carrying on your business is assessable income. There are some exceptions, such as:

- loans you receive
- money you (the owner) contribute, and
- GST you collect, or GST credits.

➤ For more information on what is included in assessable income, refer to *Income tax and deductions for small business* (NAT 10710).

ALLOWABLE DEDUCTIONS

Most expenses incurred in carrying on your business are deductible and you can generally:

- claim an immediate deduction for expenses that are necessary for the everyday running of your business, and
- claim a deduction over a number of years (depreciation) for other expenses, for example, capital assets such as machinery, tools or computers.

Not all expenses are allowable deductions. Expenses that are not allowable deductions are:

- loans made by the business
- money drawn or borrowed from the business by the owner
- private or domestic expenses, and
- GST (if you can claim it as a credit on your activity statement).

⚠ If you exchange goods or services for items other than cash (that is, you trade or barter), you must include in your assessable income the value of the goods or services you get in exchange.

➤ For more information, refer to *Bartering and barter exchanges* (NAT 9748).

TAXABLE INCOME

When you have worked out your assessable income and allowable deductions, you can calculate your taxable income. This is the amount your income tax return will show as the net taxable income from your business. It is the amount you pay tax on.

Sole traders and partners should not confuse amounts drawn from the business to live on (drawings) with taxable income. You have to pay tax on the **taxable income of the business**, regardless of the amount of drawings you make over the year.

⚠ You must lodge an income tax return for any year in which you carry on a business, even if you expect to have no income tax liability.

Remember, activity statements are different from income tax returns. Even if you report your PAYG instalments and other obligations on an activity statement, you must still lodge an income tax return.

WORKING OUT HOW MUCH TAX TO PAY

To work out how much tax you have to pay, apply the appropriate tax rate to your taxable income. This will vary according to your business structure.

➤ See Tax rates on page 26 for examples of how a sole trader and a company work out their tax payable.

Current tax rates for resident individuals

The tax rates for sole traders shown in the following tables also apply for income received by:

- partners in partnerships
- most beneficiaries of trusts, and
- you as an employee of your trust or company.

Tax rates 2007–08

Taxable income	Tax payable
\$0 – \$6,000	Nil
\$6,001 – \$30,000	15% of amount over \$6,000
\$30,001 – \$75,000	\$3,600 plus 30% of amount over \$30,000
\$75,001 – \$150,000	\$17,100 plus 40% of amount over \$75,000
Over \$150,000	\$47,850 plus 45% of amount over \$150,000

Tax rates 2008–09*

Taxable income	Tax payable
\$0 – \$6,000	Nil
\$6,001 – \$34,000	15% of amount over \$6,000
\$34,001 – \$80,000	\$4,200 plus 30% of amount over \$34,000
\$80,001 – \$180,000	\$18,000 plus 40% of amount over \$80,000
Over \$180,000	\$58,000 plus 45% of amount over \$180,000

! Medicare levy*

If you are an Australian resident and your taxable income is above the 'low income threshold', it is likely you will have to pay 1.5% of your taxable income as a Medicare levy. You may also have to pay the 1% Medicare levy surcharge if you don't have adequate private patient hospital medical insurance and your taxable income is more than:

- \$100,000 – if you are single with no dependent children
- \$150,000 – if you have a spouse or dependent child. This amount increases by \$1,500 for each dependent child after the first.

* At the time of printing the 2008–09 tax rates and Medicare levy surcharge thresholds are subject to passage of measures announced by the Federal Government in the May 2008 budget.

What is the tax rate for companies?

The company tax rate for the 2008–09 income year is 30%. This rate is applied equally to all the taxable income of a company. Unlike individuals, companies do not have marginal tax rates or tax-free thresholds.

Employees of a company (which usually include the owner or director) must include any wages or salary from the company in their individual tax return.

! If you earn income mainly from your personal efforts or skills, your income may be taxed at your personal tax rate even if it is paid to a company, partnership or trust and not directly to you. See Personal services income on page 37 for more information.

MAKING PAYMENTS TOWARDS YOUR TAX LIABILITY

Pay as you go (PAYG) instalments is a system for individuals and companies to pay instalments towards their expected tax liability.

In your first year of business you generally don't pay PAYG instalments. After you lodge your first tax return showing a profit from business or investment income, we send you a letter if you are required to pay PAYG instalments. The letter and additional information will tell you your payment options, and how often to pay (usually quarterly, but you may be able to pay annually).

Once you are paying PAYG instalments, any instalments you pay during the year are credited towards your final tax assessment after you lodge your income tax return.

Budgeting to pay your tax

You will need to budget for your total income tax liability, especially in your first year in business. This is because we may not receive your tax return, and assess your PAYG instalments, until some time after the end of the first year.

One way to budget to pay your tax is to make voluntary payments to us during the year. You must be able to estimate your tax liability to do this.

➤ For more information about making voluntary payments towards your tax, phone **13 28 66**.

How to estimate your liability

Soon after starting business, you should be in a position to work out your taxable income periodically (perhaps weekly, monthly or quarterly) using the formula:

$$\begin{aligned} &\text{Assessable income minus allowable deductions} \\ &= \text{Taxable income} \end{aligned}$$

You can use weekly, fortnightly or monthly PAYG withholding tables to see how much tax you need to put aside. If your business is run as a partnership or trust you need to refer to the tax rates for individuals to calculate your full annual liability.

➤ To view the PAYG withholding tax tables and the *Tax withheld calculator*, see the 'Rates, calculators and tools' section on our website at **www.ato.gov.au**

Partnerships and trusts

Partnerships are not liable to pay PAYG instalments. Instead, the individual partners may be liable to pay PAYG instalments on their share of net income or loss from each partnership they are a member of.

Similarly, trusts are not liable to pay PAYG instalments. Instead, the beneficiaries or trustees may be liable to pay instalments.

➤ For more information, refer to:

- *Introduction to pay as you go income tax instalments* (NAT 4637)
- *PAYG instalments – fact sheet for individuals* (NAT 4269)
- *PAYG instalments – annual income tax instalments for individuals* (NAT 7324)
- *Companies – questions and answers* (NAT 7331)
- *PAYG annual income tax instalments for companies* (NAT 7322)
- *PAYG options for primary producers and special professionals* (NAT 4352)
- *PAYG instalments – working out your proportion of partnership instalment income* (NAT 3494)
- *PAYG instalments – working out your proportion of trust instalment income* (NAT 3495).

EXAMPLES

Alex – ‘All Electrical’ (sole trader)

In 2007–08 Alex has the following income and deductions:

- business income \$58,000
- investment income \$2,000 (included in assessable income)
- deductions \$19,900.

Alex includes these amounts in his 2007-08 individual income tax return. His taxable income for the year is calculated as follows:

Assessable income \$60,000
 – allowable deductions \$19,900
 = taxable income \$40,100

To work out the tax he has to pay, Alex applies the 2007-08 marginal tax rates for individuals to each relevant ‘bracket’ of his taxable income. On the first \$6,000 of his taxable income the tax rate is 0%. On the next \$24,000 (that is, the taxable income from 6,001 to \$30,000) the tax rate is 15%. On the next \$10,100 (that is, until he reaches his taxable income of \$40,100) the rate is 30%.

Alex’s 2007–08 tax is calculated as follows:

Marginal tax rates

\$150,001	45%	\$0	×	45%	=	\$0
\$ 75,001	40%	\$0	×	42%	=	\$0
\$ 30,001	30%	\$10,100	×	30%	=	\$3,030
\$ 6,000	15%	\$24,000	×	15%	=	\$3,600
	0%	\$6,000	×	0%	=	\$0
Tax on \$26,000					=	\$6,630

The net tax Alex must pay is \$6,630

Alex will also be subject to Medicare levy of 1.5%. The threshold applicable to him for the 2007 year is \$16,470. The threshold varies depending on marital status and number of children.

Medicare levy on \$40,100 is \$601.50.

The total tax and Medicare levy Alex must pay is \$7,231.50.

Renee Fashions Pty Ltd (company)

In 2007–08 Renee Fashions Pty Ltd has assessable income of \$165,000 and allowable deductions of \$152,000 (including a salary of \$36,000 paid to Renee).

These amounts are included in the company's 2006–07 company tax return. The company's taxable income for the year is calculated as follows:

Assessable income \$165,000
– allowable deductions \$152,000
= taxable income \$13,000

To work out the company's income tax liability, the company tax rate of 30% is applied to all taxable income:

$30\% \text{ (company tax rate)} \times \$13,000 \text{ (taxable income)} = \$3,900 \text{ (tax to pay)}$

Renee reports her salary of \$36,000 on her individual tax return and pays tax on this salary at the rates for individuals.

➤ For more information about income tax for individuals and how the Medicare levy is calculated refer to:

- *TaxPack* (NAT 0976)
- *Company tax return instructions* (NAT 0669)
- *Partnership and trust tax return instructions* (NAT 2297)
- *PAYG instalments – working out your proportion of partnership instalment income* (NAT 3494).

WHAT CAN YOU CLAIM?

Under income tax law, a person carrying on a business can generally claim a deduction for expenses incurred in carrying on the business.

There are some basic rules, however:

- you must have actually paid or committed to spending the money, and
- the expense must be related to your business. You must be able to show why you needed to spend the money to carry on your business.

Common claims

There is no complete list of what you can claim because what businesses do, and how they do it, varies. But the following common expenses can generally be deducted from assessable income:

- advertising
- bank fees and charges
- business travel (away from home)
- decline in value of depreciating assets (depreciation)
- electricity
- employee wages
- the cost of any fringe benefits provided, and fringe benefit tax incurred
- hire or lease of plant and equipment
- home office expenses
- interest on borrowed money
- motor vehicle expenses
- phone expenses
- registered tax agent fees
- rent or lease of business premises (including home business premises)
- repairs
- super contributions for employees
- trading stock, and
- transport and freight.

If in doubt about what you can claim, check with us or consult your tax adviser. Ineligible claims may result in your tax return being amended and you may have to pay more tax liability to be paid.

WHAT CAN'T YOU CLAIM?

You can't claim:

- **Private or domestic expenses**, for example, food, ordinary clothing. If the expense is part private and part business, you can claim a deduction only for the business part.
- **Capital expenses**. Capital refers to the expenses of establishing, replacing, enlarging or improving a business operation, as distinct from everyday working or operating expenses.

You can claim deductions for some capital expenses; for example, machinery, tools or computers (see What deductions can you claim for decline in value? on page 33).

- **A deduction for GST if you are entitled to claim GST credits**. You claim GST credits separately on your activity statement (see page 50).
- **The superannuation guarantee charge**, which you have to pay if you don't contribute enough super for your employees or if you contribute after the quarterly cut-off date.
- **Expenses incurred before you started your business**. You generally must have started business before you can claim deductions. But there are some exceptions and you can
 - write off over five years, at 20% a year, some business related capital expenses you incur before your business starts operating. For example, the cost of feasibility studies and legal expenses to establish your partnership, trust or company
 - claim the cost of licences and permits, and
 - start claiming decline in value (depreciation) of plant and equipment as soon as it is installed ready for use.

➤ For more information about deductions for business-related capital costs, refer to *Guide to depreciating assets* (NAT 1996).

The personal services income rules

Some expenses may not be deductible if the tax rules relating to personal services income apply to you. See Personal income on page 37.

WORKING OUT WHEN TO START CLAIMING DEDUCTIONS

Sometimes it's easy to identify when your business started, for example, the date you started production or the date your shop opened.

But this is not always clear and you may want to record milestones in a diary to enable you and your tax adviser to establish a clear or notional start date for your business. For example:

18 March 2006 – applied for an ABN

19 March 2006 – set up business bank account.

- For more information on claiming deductions, refer to:
- *Income tax and deductions for small business* (NAT 10710)
 - *TaxPack* (NAT 0976).

- ⚠ You must be able to support your claim for any business deductions. Records to verify claims for deductions include:
- business books
 - evidence of transactions (such as invoices and receipts), and
 - evidence of use (such as motor vehicle logbooks and airline tickets).

Keep records of your business transactions for five years, or five years after you last used them to prepare a return.

- For more information, refer to *Record keeping for small business* (NAT 3029).

CLAIMING MOTOR VEHICLE EXPENSES

Most people use one or more vehicles in their business. How you claim motor vehicle expenses differs significantly depending on whether you operate your business as a company or trust, or as a sole trader or partnership.

How much can you claim?

Companies and trusts

If you operate your business through a company or trust, the company or trust can claim a full deduction for expenses involved in running motor vehicles it owns or leases. If those vehicles are also used for private purposes, the company or trust may have to pay fringe benefits tax.

Sole traders and partnerships

Sole traders and partnerships work out deductions for motor vehicles differently, depending on whether the vehicles used in their business are:

- business purpose vehicles
- other vehicles.

Business purpose vehicles

You usually get a deduction for the running costs of these vehicles:

- larger trucks or vans
- smaller vehicles (for example, utes, wagons or panel vans) that have been heavily modified for business use, or where private use is restricted to home to work travel and very minor other use
- other vehicles, for example
 - ordinary cars, station wagons or four-wheel drive vehicles
 - most other vehicles designed to carry less than one tonne or fewer than nine passengers, and
 - utes and panel vans where private use is not strictly limited.

You have a choice of methods for working out your deduction for these other vehicles. The methods treat the private use of vehicles differently. They depend on whether you travel more or less than 5,000 business kilometres a year, as shown in the following table.

5,000 business km or less	More than 5,000 business km
<ul style="list-style-type: none"> ■ cents-per-kilometre method ■ logbook method 	<ul style="list-style-type: none"> ■ cents-per-kilometre method (claim limited to 5,000 km) ■ logbook method ■ 1/3 of actual expenses method ■ 12% of original value method


If you use more than one vehicle in your business, you can choose the same or different methods for each vehicle. If you use the logbook method for more than one vehicle, you must maintain logbooks concurrently, that is, for the same 12-week period for each vehicle.


Which method should you use?

You can:

- choose the method that gives you the best result
- use different methods for different cars
- change methods from year to year.

Whichever method you choose, you must keep appropriate records.

 To help you calculate your work related car expenses, we have developed an electronic work related car expenses calculator. To use it, visit our website at www.ato.gov.au and search using the term 'car expenses calculator'. See *TaxPack* (NAT 0976) for more information about how each claim method works.


 Generally, travel between your home and place of business is not deductible and should not be included in your claim. There are exceptions, including:

- travel to clients' premises where your home is your place of employment
- if you need to carry heavy or bulky items or tools of trade.

GST and motor vehicle costs

Sole traders and partnerships can claim GST credits only in relation to costs incurred for the business use of a vehicle.

If you're registered for GST and use the cents-per-km, logbook, 12% of original value or 1/3 of actual expenses method to claim income tax deductions for car expenses, we specify the amount of GST credits you can claim.

 For more information, refer to GST Bulletin GSTB 2006/1 How to claim input tax credits for car expenses.

CLAIMING WORKING FROM HOME EXPENSES

If operate your business in full or in part from home, you may be able to claim a deduction for:

- occupancy expenses, such as rent, mortgage interest, rates, land taxes and house insurance premiums
- running expenses, such as phone rental and business calls, internet fees, depreciation of office furniture and equipment, and any additional heating, cooling, lighting and cleaning expenses.

Whether you can claim both running expenses and occupancy expenses depends on whether:

- your home is your place of business and you have an area set aside exclusively for business activities
- your home is not your place of business but you have an area set aside exclusively for business activities
- you work at home but have no home work area. You work when others are not present in a living area or garage but your home is not your place of business and you don't have an area set aside primarily or exclusively for business activities.

If your home is your place of business and you have an area set aside exclusively for business activities, you may be able to claim both running and occupancy expenses.

If you carry on your business elsewhere and also do some work at home, you cannot claim occupancy expenses even if you have a home work area set aside.

The following table shows the deductions you can claim for the three ways you can work at home.

What you can claim	How you operate your business		
	Home is your place of business and you have a home work area	Home is not your place of business but you have a home work area	You work at home but don't have a home work area
Running expenses			
Cost of using a room (utilities such as gas and electricity)	Yes	Yes	Yes
Business phone costs	Yes	Yes	Yes
Depreciation of office plant & equipment (eg, desks, chairs, computers)	Yes	Yes	Yes
Occupancy expenses*			
Cost of owning or renting the house (rent, mortgage interest, insurance, rates)	Yes	No	No

* If your income includes personal services income, you may not be able to claim a deduction for occupancy expenses. See 'Personal services income' on page 37.

Capital gains tax and working from home

If your home is your place of business, capital gains tax may apply when you sell your home.

For example, if you are carrying on a business at or from your home, you have a home work area and your business occupies 15% of the total area of your home, you can claim 15% of your mortgage interest, rent, council rates and/or insurance premiums. But 15% of the capital gain you make when you sell your home will be subject to capital gains tax.

This gain may be reduced by the 50% capital gains tax discount and the small business concessions if the relevant conditions are met. The remaining 85% of the capital gain will be exempt from capital gains tax.

Capital gains tax may still apply even though you haven't claimed mortgage interest as a deduction.

- For more information about capital gains tax, refer to:
- *Main residence exemption – the effect of using your home to produce income* (NAT 10255)
 - *Guide to capital gains tax* (NAT 4151)
 - *Guide to capital gains tax concessions for small business* (NAT 8384).

How much can you claim?

When working out your allowable deductions, the emphasis is on:

- additional costs you incur because you conduct business activities from home, and
- excluding any part of an expense that is related to private use.

You need to have a reasonable basis for apportioning business and private costs. For example, you might allocate heating and lighting costs based on the floor area of the business part of your home, relative to the total floor area.

And as with all claims for deductions, it's important to keep records to substantiate your claims, for example:

- electricity and phone bills
- rental receipts.

If you are carrying on a business at or from your home, you also need to have a reasonable estimate of your home's value at the time you started your business. You will need this to calculate whether you have made a capital gain or a capital loss if you sell your home.

- For more information about working from home expenses:
- refer to *Home-bases business* (NAT 10709)
 - phone **13 28 66**.

To help you work out your expenses relating to a home work area, we have developed an electronic home office expenses calculator. To use the calculator, visit our website at www.ato.gov.au and select Rates, calculators & tools – Rates, calculators & tools – For businesses – Calculators – Income tax.

EXAMPLE**Alex – ‘All Electrical’ (sole trader)**

Alex uses his home as his base for his electrical business. He has converted his garage to a workshop, but does most of his electrical work on clients’ premises. He has a van that he uses to carry his tools and electrical equipment from job to job.

Alex works out that his workshop covers about 10% of the floor area of his home. On this basis, he claims deductions for 10% of the costs for gas, electricity, insurance premiums, council rates and mortgage interest.

Based on a review of his itemised home phone bills, he estimates that 10% of calls from his house are for business purposes. On this basis, he claims 10% of his total call costs and line rental fees for his home phone.

Alex also claims deductions for the decline in value of depreciating furniture that he uses for the business.

Utilities, rates, insurance, interest	\$10,500	
Business floor area	× 10%	\$1,050
Home phone costs	\$800	
Business use of phone	× 10%	\$80
Decline in value of business furniture	\$100	\$100
Total deductions		\$1,230

WHAT BUSINESS TRAVEL EXPENSES CAN YOU CLAIM?**Companies and trusts**

If you run your business through a company or trust, the company or trust can claim a full deduction for expenses for business travel. If the travel is partly for private purposes, the company or trust may have to pay fringe benefits tax.

Sole traders and partnerships

Travel expenses incurred in running your business are deductible expenses.

If you travel away from home overnight, you must keep written evidence of all expenses incurred.

If the travel is for more than six consecutive nights, you must also keep a record of all business activities conducted. One way to do this is to record in a diary:

- the nature of any business activity
- the day and approximate time the activity began
- how long it lasted
- where you engaged in the activity.

If travel is for both business and private purposes, you cannot claim the private expenses.

WHAT DEDUCTIONS CAN YOU CLAIM FOR DECLINE IN VALUE (DEPRECIATION)?

You may be able to claim a deduction for the decline in value of your depreciating assets. A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used. Examples include:

- computers
- electrical tools
- furnishings
- carpet and curtains
- motor vehicles.

You can claim a deduction for part of the value of these assets in each year of their effective life. That is, the length of time the asset can be expected to be used for business purposes. We publish a comprehensive list of assets and their effective life to help you work out these claims, or you can assess the effective life of your depreciating assets.

Deductions can be worked out under the uniform capital allowance system or, for most small businesses, simpler depreciation methods are available.

Uniform capital allowance system

Generally, you work out the decline in value of depreciating assets using one of two calculation methods. Either the prime cost method or diminishing value method. Both methods are based on the effective life of the asset.

Subject to certain conditions, you can pool assets costing less than \$1,000 (low-cost assets) or assets that have been depreciated to an adjusted value of less than \$1,000 (low-value assets) and deduct 37.5% of their value each year. In the first year, a newly acquired asset is deducted at 18.75%.

Subject to certain conditions, you may be able to claim a full deduction for an item costing \$100 or less in the year you purchased it.

Simpler depreciation rules

Alternatively, many small businesses with less than \$2 million turnover can choose to use a simpler and more generous treatment of depreciating assets. Using the simpler depreciation rules you can:

- immediately write off most depreciating assets that cost less than \$1,000 each
- pool most other depreciating assets and deduct them at a rate of 30% (if their effective life is less than 25 years) or 5% (if their effective life is 25 years or more).

Prior to 1 July 2007, the simpler depreciation rules were only available to businesses in the simplified tax system.

➤ For more information, refer to:

- our website at www.ato.gov.au/SBconcessions
- *Guide to depreciating assets* (NAT 1996), for information about the uniform capital allowance system
- *Simplified Guide to concessions for small business entities* (NAT 71874)
- Law Administration Practice Statement PS LA 2003/8 Taxation treatment of expenditure on low cost items for taxpayers carrying on a business.

You can also use the online decline in value calculator. To use the calculator, visit our website at www.ato.gov.au and select Rates, calculators & tools – Rates, calculators & tools – For businesses – Calculators – Income tax.

⚠ If an asset is used partially for private purposes, you are entitled to a deduction only for the business-use proportion.

07

TAX CONCESSIONS FOR SMALL BUSINESS

GENERAL CONCESSIONS

Small businesses with less than \$2 million turnover may be eligible for a range of tax concessions.

When calculating your turnover, you must include the turnover of any other business you are connected with.

The small business tax concessions include:

- choice to account for goods and services tax (GST) on a cash basis
- choice to pay GST by instalments
- annual apportionment of GST input tax credits
- simpler trading stock rules
- simpler depreciation rules
- entrepreneurs' tax offset
- CGT 15-year asset exemption
- CGT 50% active asset reduction
- CGT retirement exemption
- CGT roll-over provisions
- fringe benefits tax car-parking concession (applies from April 2007)
- pay as you go instalments based on GDP-adjusted notional tax
- two-year period for amending assessments (exceptions may apply)
- immediate deductions for certain prepaid business expenses.

➤ For more information, refer to:

- www.ato.gov.au/SBconcessions
- *Concessions for small business entities* (NAT 71398)
- *Guide to concessions for small business entities* (NAT 71874).

PRIMARY PRODUCERS

The tax laws include special provisions to help primary producers. Examples of primary production activities include farming, fishing and aquaculture.

To use these provisions, you need to check that you meet our definition of 'carrying on a primary production business'. Some of the factors we may consider include:

- the size or scale of your activities
- whether the activities are profitable or, if not, whether you genuinely believe the activities will be profitable
- whether the activities are carried on in the same manner as that type of activity is ordinarily conducted by others.

How does this affect you?

The special provisions include:

- accelerated depreciation for some items
- special deductions for water facilities and landcare operations
- income averaging over up to 5 years
- concessions for forced disposal or death of livestock
- special treatment for insurance recoveries
- special treatment of proceeds from early shearing caused by drought, fire or flood
- the non-commercial business losses rules may also not apply to primary producers in some circumstances
- access to the farm managements deposit scheme.

Farm management deposits scheme

The farm management deposits scheme can help you deal with uneven income streams. The scheme allows you to claim a deduction for farm management deposits made in the year you deposit.

If you withdraw a farm management deposit, you have to include the amount of the deduction previously allowed in your assessable income in the year you withdraw it.

➤ For more information about the special provisions for primary producers and the eligibility criteria for being a primary producer, refer to:

- *Taxation Ruling TR 97/11 Am I carrying on a business of primary production?*
- *Information for primary producers* (NAT 1712)
- *Tax averaging for primary producers* (NAT 8914)
- Farm management deposits scheme (NAT 8776)
- phone **13 28 66**
- talk to your tax adviser.

INCOME AVERAGING FOR SPECIAL PROFESSIONALS

If you are one of the following special professionals, in certain circumstances you may be eligible to average your income over a number of years:

- artist
- author
- composer
- computer programmer
- inventor
- performing artist
- production associate
- sportsperson.

➤ For more information:

- refer to *Income averaging for special professionals* (NAT 2475)
- refer to Taxation Ruling TR 2005/1 *Carrying on a business as a professional artist*
- phone **13 28 66**
- talk to your tax adviser.

A capital gain or capital loss is the difference between the amount you receive when you sell an asset and what the asset cost you.

Are you affected?

Not all assets attract capital gains tax.

As a small business operator, you most commonly make a capital gain or capital loss when you sell one of the assets used in your business, for example, your business premises or goodwill. If you conduct your business through a company or trust, you may make a capital gain or capital loss if you sell your shares in the company or interest in the trust.

Capital gains tax does not generally apply to depreciating assets that you use only in your business, for example, tools or motor vehicles. Gains from these assets are included in your income, while losses are deductible.

What are the effects?

Capital gains tax affects your income tax liability because you must include in your assessable income any **net capital gain** you made for the income year.

Your net capital gain is the total of your capital gains for the year, minus any capital losses for the year or earlier years, and any relevant concessions. There are a range of capital gains tax concessions that can reduce the tax payable on capital gains made by small business operators.

⚠ You must keep records of any act, transaction, event or circumstance that might reasonably be expected to be relevant to working out a capital gain or capital loss. You need to do this even if the capital gain or capital loss hasn't yet happened.

➤ For more information, refer to:

- *Guide to capital gains tax* (NAT 4151)
- *Guide to capital gains tax concessions for small business* (NAT 8384).

If you are a contractor or consultant and you earn personal services income, special tax rules may affect what amounts you include in your assessable income and what deductions you can claim. Personal services income rules can apply to sole traders, partnerships, companies or trusts.

PERSONAL SERVICES INCOME

Personal services income is income that is mainly a reward for, or the result of, your personal efforts or skills.

Examples of personal services income include:

- income earned by consultants from the exercise of personal expertise
- income of a professional practitioner in sole practice
- income payable under a contract that is wholly or principally for the labour or services of a person, and
- income derived by a professional sportsperson or entertainer from the exercise of professional skills.

Personal services income does not include income that is mainly:

- for supplying or selling goods
- for granting a right to use property
- generated by an income producing asset, such as income derived from the use of a truck
- generated by a business structure (for example, a large accounting firm).

Are you affected?

If you are conducting a personal services business or you hold a Personal Services Business Determination from us, the personal services income rules do not apply to you.

You qualify as a personal services business if:

- you meet the results test, or
- less than 80 per cent of your personal services income in an income year comes from each client and you meet one of the other three personal services business tests (the unrelated clients test, employment test or business premises test), or
- you obtain a determination from us confirming that you are a personal services business.

You can apply for a determination if:

- you are not sure whether you meet one or more of the personal services business tests
- you don't meet the results test and 80% or more of your personal services income comes from one client, or
- unusual circumstances prevent you from meeting one or more of the tests.

If you don't meet the results test and 80 per cent or more of your personal services income comes from one client, the Personal Services Income rules will affect you unless you get a determination from us.

What are the effects?

If you are a sole trader, the personal services income rules limit the deductions you can claim. For example, claims are limited for:

- rent, mortgage interest, rates or land tax on your residence, and
- wages or super payments for associates.

For companies, partnerships or trusts:

- there are limits on the deductions that can be claimed
- the income (less certain reductions) is regarded for tax purposes as your income and must be included in your personal assessable income, and
- the entity will have an additional PAYG withholding obligation on the income attributed to you.

➤ You may need to seek a determination from us. For more information about these rules:

- refer to
 - *Alienation of personal services income: contractors and consultants* (NAT 4788)
 - *Personal services income – personal services business self-assessment checklist* (NAT 3416)
 - *Alienation of personal services income: additional pay as you go withholding obligations* (NAT 3517)
- talk to your tax adviser.

If you are conducting a personal services business, the personal services income rules will not apply to you. However, this does not mean that the general anti-avoidance rules in the tax law could not apply to you. The general anti-avoidance rules may apply, for example, to a personal services business conducted through a company, partnership or trust where the dominant purpose of the arrangement is to obtain a tax benefit.

10

OFFSETTING YOUR BUSINESS LOSSES

NON-COMMERCIAL LOSS RULES

This information applies only to sole traders and partners.

Although you are in business, you may have income from other sources. For example, you may have income from salary and wages as well as your business.

If you're an individual or partner in a partnership and you make a net loss from your business activity, you can claim that loss by offsetting it against your other income only if you meet certain criteria.

Are you affected?

The provisions apply to any individual undertaking a business activity, whether alone or in partnership with other individuals or entities. They do not apply to a loss you incur from a primary production activity or a professional arts business activity if your assessable income from other sources is less than \$40,000 (excluding any net capital gains).

You will be able to offset a loss against other income if your business meets at least one of the following criteria:

- the assessable income from your business is at least \$20,000 in the income year. If you have not carried on your business for a full year, you can make a reasonable estimate of what you would have made over a full year
- your business has a profit in three of the past five years, including the current year. A business has a profit when its assessable income is more than its tax deductions for the income year
- your business uses or has an interest in, real property worth at least \$500,000, and that property is used on a continuing basis in a business activity. Real property includes land; interests in land such as leases; and structures, such as buildings, fixed to the land (excludes your private residence and adjacent land)
- the value of other assets you use in your business on a continuing basis is at least \$100,000. You can count the value of four types of assets; depreciable assets, trading stock, leased assets, and trademarks, copyrights and similar rights. (Motor vehicles are excluded.)

If your business activity does not meet any of the above criteria, you may still claim a loss if we allow a loss to be offset against other income.

We will only allow this if:

- your business activity would have passed one of the tests except for special circumstances outside your control, or
- you have just started your business activity and there is a lead time before a profit can be expected.

What are the effects?

If you are affected by the non-commercial loss provisions in a particular income year, a loss incurred by your business activity in that year is deferred and you cannot claim it against income from other sources. When you meet the criteria, you may be able to claim the loss against other income in a future year.

➤ For more information, refer to *Non-commercial losses: overview* (NAT 3379).

GST is a 10% tax on most goods and services sold in Australia. It is collected by registered businesses at each step in the supply chain.

If you are registered for GST, you send the GST you collect (less GST credits you can claim) to us monthly, quarterly, or annually if eligible.

➤ For more information about whether you must be registered for GST, see 'Working out if you need to register for GST' on page 15.

GST CREDITS

If you are registered for GST, you can generally claim a credit for any GST included in the price you pay for purchases for your business, provided you hold a tax invoice. This is called a GST credit.

If the goods or services are purchased only partly for business use, you can claim a GST credit only to the extent the goods or services are used for your business. For example, if you use something 50% for your business, you can claim 50% of the GST credit.

You may be able to elect to work out your private use just once a year. If eligible, you:

- initially claim full GST credits, and
- make an adjustment after the end of your income year to account for the private portion of these purchases.

➤ For more information, refer to *GST and annual private apportionment* (NAT 12877).

GST SALES AND PURCHASES

In this information we use the terms sale and purchase instead of the GST terms supply and acquisition.

For GST, a sale or supply includes a sale of goods, lease of premises, hire of equipment, giving of advice, export of goods, and supply of other things.

A purchase includes an acquisition of goods or services such as trading stock, a lease, consumables and other things.

We use the term 'GST credit' instead of 'input tax credit'.

What are the different types of GST sale?

There are three types of GST sale:

- taxable sales
- GST-free sales
- input taxed sales.

It is important to understand which type of sales you make because this affects whether you collect GST or are entitled to claim GST credits (see the table below).

Taxable sales

Most goods and services sold in Australia are taxable sales. Note that sales of business assets may also be taxable sales.

GST-free sales

Some sales are GST-free sales, including:

- basic food for human consumption, for example, fruit, vegetables, plain milk and bread
- exports
- some health services and education courses
- some activities of charitable institutions
- childcare
- religious services
- water and sewerage services, and
- a sale of a going concern; for example, a business.

Input taxed sales

Input taxed sales include:

- financial supplies (for example, loans by banks), and
- residential rent.

Collecting and claiming GST on different types of sales

Type of sale	Do you collect GST?	Can you claim GST credits?
Taxable	Yes	Yes
GST-free	No	Yes
Input taxed	No	No

SPECIAL GST RULES

Special rules apply to collecting GST or claiming credits for:

- food
- the costs of setting up your business
- second-hand goods
- cars with a GST-inclusive value above the luxury car tax threshold
- sales made to associates for nominal or no consideration
- the sale or purchase of property using the margin scheme
- insurance settlements
- long-term accommodation in commercial residential premises
- financial supplies (finance industry)
- imports, and
- exports.

WHAT IS A TAX INVOICE?

If you make a taxable sale, by law you must provide a tax invoice to a customer where they have requested one for sales of more than \$82.50 including GST. A tax invoice is like a normal invoice, but must include some additional information.

You must have a tax invoice to claim a GST credit (there are some concessions for purchases of \$82.50 or less).

As a buyer, you may need to ask the seller to provide a tax invoice if you don't get one at the time of the sale. The seller must then provide it to you within 28 days. As a seller, you have the same obligation to anyone who buys goods or services from you.

Businesses that are not registered for GST cannot issue tax invoices or claim GST credits.

- For more information, refer to:
- *Valid tax invoices and GST credits* (NAT 12358)
 - *GST for small business* (NAT 3014)
 - *How to set out tax invoices and invoices* (NAT 11675).

HOW DO YOU REPORT GST?

You account for your GST on the activity statement we send you at the end of each tax period. As a small business, you will normally have quarterly tax periods, but may choose to report monthly.

If you are eligible, you may be able to:

- elect to pay quarterly instalments worked out by us and lodge an annual GST return, or
- if you are voluntarily registered for GST, elect to report and pay GST annually.

- For more information, refer to *Report your GST once a year* (NAT 12906).

Keep the GST aside

Remember, the GST you collect does not belong to you. You must pay any GST you collect (less GST credits) to us.

GST SUMMARY

Below is a brief summary of how GST will affect your business.

Registered for GST (or required to be registered)	Not registered for GST (and not required to be registered)
Collect GST on taxable sales.	Do not collect GST.
Invoices you issue must be called 'tax invoices'.	Your invoices must not be called 'tax invoices'.
Claim GST credits on your activity statement.	Do not claim GST credits.
Your income tax deduction excludes GST.	Your income tax deduction is the full cost, including GST.
	Keep an eye on GST turnover. If your current or projected GST turnover is \$75,000 or more, you must register within 21 days of determining this.

- For more information, refer to:
- *GST for small business* (NAT 3014)
 - *GST and the disposal of capital assets* (NAT 7682).

EXAMPLE: GST

Alex

'All Electrical' (sole trader)

Alex is registered for GST and has quarterly tax periods. In his first quarter, Alex makes taxable sales of \$2,200, buys stock costing \$880 and has phone expenses of \$44.

For each of these things he can calculate the GST component by simply dividing the total amount by 11.

Alex calculates GST for his first activity statement as follows:

GST collected on sales ($\$2,200 \div 11$)	\$200
GST credits:	
stock ($\$880 \div 11$)	\$80
expenses ($\$44 \div 11$)	\$4
	\$84
Net GST to pay ($\$200 - \84)	\$116

If your business engages workers, you need to know how to meet your tax and super obligations. And if you work in the business, you need to know if the business has any obligations to you. The tables on the following pages summarise the obligations different business structures have for:

- PAYG withholding
- super, and
- fringe benefits tax.

First, it's important to know the **status** of your workers for tax purposes because you have different obligations depending on whether a worker is an employee or a contractor.

ARE YOUR WORKERS EMPLOYEES OR CONTRACTORS?

The table below will help you work out if your workers are employees or independent contractors. The information is only a guide and you'll have to consider all the terms of any contract.

➤ For more information, refer to:

- The *Employee/contractor decision tool* on our website at www.ato.gov.au
- *PAYG withholding guide no. 2 – how to determine if workers are employees or independent contractors* (NAT 2780)
- *Super – what employers need to know* (NAT 71038)
- *Superannuation guarantee – a guide for employers* (NAT 1987).

Factors to consider	Employee	Contractor
Control over work	The employer has an implied right in industrial law to direct and control the work of an employee. The employee works in the business of the employer and the employer is free to manage their business as they see fit.	A payer has a right to specify how the contracted services are to be performed. However, such control must be specified in the terms of the contract, otherwise the contractor is free to exercise their discretion.
Independence	An employee works in the business of the payer. Their work is an integral part of the business.	Although the work of a contractor is done for the business, it is not integrated into it but is ancillary to it.
Payment	Payment is often based on the period of time worked, but an employee can also work on 'piece rates' or commission.	Payment depends on the performance of the contracted services.
Commercial risks	An employee generally bears no legal risks in respect of the work; since the employee works in the business of the employer, the employer is legally responsible for any work performed by the employee.	A contractor bears legal risk in respect of the work. They have the potential to make a profit or loss, and must remedy any defective work at their own expense.
Ability to delegate	An employee performs the work personally and generally cannot subcontract the work to someone else.	Unless otherwise specified in the contract, a contractor can subcontract or delegate the work.
Tools and equipment	The employer, except when specifically agreed otherwise, usually provides tools and equipment.	Generally, a contractor provides their own tools and equipment.

WORKING OUT YOUR PAYG WITHHOLDING OBLIGATIONS

You may be required to withhold amounts from payments you make to employees and other workers, and send the withheld amounts to the Tax Office. This process is called withholding and is done using the PAYG withholding system.

The following table summarises the PAYG withholding obligations you have to yourself, employees and contractors, depending on your business structure.

Yourself

Sole trader or partnership

If you are a sole trader or a partner in a partnership, you don't pay yourself a wage or salary as such, and none of the PAYG withholding rules apply. Instead, you 'draw' money from the business to live on. You pay tax on your entitlement to the business's net profit, regardless of how much or how little you draw from it.

Company or trust

If your business is operated through a company or trust, it's likely that you will be an employee (and/or director) of the company or trust. The company or trust has the same responsibilities to you as it does to any other employee.

Employees

Sole trader, partnership, company or trust

Regardless of your business structure, you're required to withhold amounts from most payments you make to employees and send the withheld amounts to us. This includes workers paid on commission, piece rates, hourly rates or salary.

Contractors

Sole trader, partnership, company or trust

Under PAYG, contractors can either:

- provide for their own income tax liability by paying PAYG instalments, or
- enter into a voluntary agreement with you to withhold from their payments.

Unless a contractor seeks a voluntary agreement or does not quote an ABN, you don't have to withhold from payments to them.

Personal services income

If the personal services income (see page 37) rules apply to your company, partnership or trust, you may have additional PAYG obligations.

VOLUNTARY AGREEMENTS

If your business makes a voluntary agreement with a contractor, you withhold amounts from payments you make to them and send these amounts to us. The contractor will not be required to pay PAYG instalments for that income because it has already been subject to PAYG withholding and therefore is not included in their instalment income.

You can enter into a voluntary agreement with a contractor only if they are an individual who has an ABN. (The contractor cannot be a company, partnership or trust.)

To enter into a voluntary agreement, a business and a contractor need to obtain and complete a:

- voluntary agreement form. *PAYG voluntary agreements* (NAT 3063)
- *Statement by a supplier (reason for not quoting an ABN)* (NAT 3346).

PAYG WITHHOLDING – WHAT YOU NEED TO DO FOR EMPLOYEES

You (or the partnership, company or trust) need to:

- register for PAYG withholding
- work out which payments to withhold from
- work out how much to withhold
- report and pay withheld amounts to us
- provide annual payment summaries to employees, and
- send an annual statement to us.

Register for PAYG withholding

You must register with us before you withhold from payments to employees.

Work out how much to withhold

The amount you withhold from an employee's pay depends on the amount they are paid and the information they have given you on a *Tax file number declaration* and/or a *Withholding declaration*.

We publish tax tables that show the amounts to withhold from weekly, fortnightly and monthly payments. There is also a tax withheld calculator to help work out how much to withhold.

➤ To download a copy of the tax withheld calculator, visit our website at www.ato.gov.au and search using the term 'Tax withheld calculator'.

Some business accounting software packages will do the calculations for you. If you use one of these packages, it's important to keep it up to date as tax rates and other withholding factors may change from year to year.

Some of your payees may find that the amount withheld using the tax tables is either too much or too little when compared to their actual end-of-year tax liability. A payee may apply to us to vary their rate of withholding upwards or downwards. For more information about withholding variations see *PAYGW for small business* (NAT 8075)

You can access the tax tables online or by phoning **13 27 66**. Employee declarations are available by phoning **13 28 66**. Both are also available from most newsagents.

➤ For more information, refer to:

- *PAYG withholding for small business* (NAT 8075)
- *PAYG tax tables – weekly* (NAT 1005), *fortnightly* (NAT 1006) and *monthly* (NAT 1007)
- *Withholding declaration* (NAT 3093)
- *Tax file number declaration* (NAT 3092).

Report and pay withheld amounts

As a small business, you generally report and pay the withheld amounts to us quarterly when you lodge your activity statement.

You are also required to:

- provide each employee with an annual payment summary showing the amount withheld from them during the year, and
- send an annual report to us showing withheld amounts.

Each year we send a stationery package to employers who are registered for PAYG withholding (except those who report electronically). The package includes copies of payment summaries, guidelines for completing payment summaries and other information.

EMPLOYMENT TERMINATION PAYMENTS

An ETP is a lump sum payment made to an employee when they stop working for you. A termination can occur when:

- you or your employee request it
- a mutual agreement has been made (this may include retirement)
- your employee becomes permanently disabled, or
- your employee dies.

The ETP will be taxed at different rates depending on your employee's age and length of employment.

There were a number of legislative changes from 1 July 2007 that may have an impact on the payments you make to your employees when they leave. Some of these changes include:

- A payment made due to the termination of employment, is now called an 'employment termination payment'.
- An ETP cannot be rolled over into super.
- Only ETPs paid under the transitional arrangements can be directed into your employee's super fund.

The transitional arrangements are available until 30 June 2012.

ETPs generally need to be made within 12 months of your employee's termination in order to qualify for lower rates of tax withholding.

You need to complete a payment summary for ETPs, called a *PAYG payment summary – employment termination payment* (NAT 70868).

There is a limit on the amount of an ETP (called the ETP cap amount) that qualifies for a lower rate of tax withholding.

Reasonable benefit limits (RBLs) have been abolished with effect from 1 July 2007. However, you will still have RBL reporting obligations for payments made up to 30 June 2007.

ETPs include:

- unused rostered days off (RDOs)
- payment in lieu of notice
- unused sick leave
- a gratuity or 'golden handshake'
- compensation for loss of job
- compensation for wrongful dismissal, provided it is paid within 12 months of the actual termination of employment
- payments for loss of future super payments
- payments arising from your employee's termination because of ill-health (invalidity), other than compensation for personal injury
- payments in respect of genuine redundancy or paid under an early retirement scheme that exceed the tax-free component.

ETPs do not include:

- payments for unused annual leave and/or leave loading
- payments for unused long service leave
- salary, wages, allowances, bonuses and incentives owing to the employee for work done or leave already taken
- compensation for personal injury
- payment for restraint of trade
- foreign termination payments
- employee share scheme payments
- an advance or loan
- payments in respect of genuine redundancy or paid under an early retirement scheme that are within the tax-free limit.

➤ For more information:

- refer to
 - *Employment termination payments – when an employee leaves* (NAT 71043)
 - *Employment termination payments* (NAT 70643)
 - *Employment termination payments – Transitional arrangements* (NAT 70644)
 - *Tax table for employment termination payments schedule 32* (NAT 7098)
- use the online calculator to help you calculate ETP payments.

As an employer, you must pay super for your eligible employees and certain contractors. This is called the superannuation guarantee. Your employees may also be eligible to choose the super fund you pay their super into.

The following table summarises the super obligations you have to yourself, employees and contractors, depending on your business structure.

Yourself

Sole trader or partnership

If you operate your business as a sole trader or partnership, you are not an employee and the superannuation guarantee rules don't apply to you.

Instead, like any self-employed person, you can claim a deduction for personal contributions you make to a superannuation fund. You may also be eligible for a super co-contribution if you make personal super contributions.

You should seek professional advice when considering your own superannuation.

Company or trust

If your business operates as a company or a trust, you are likely to be a director or an employee. In this case, the superannuation guarantee minimum rules apply to you in the same way as they apply to other employees.

Employees

Sole trader, partnership, company or trust

Regardless of your business structure, you're required to contribute 9% of an eligible employee's earnings base to a complying superannuation fund or retirement savings account at least every quarter. You may have to allow your eligible employees to choose which superannuation fund they want to use. You must also pass on your employee's tax file number (provided in their *Tax file number declaration form*) to their superannuation fund.

Contractors

Sole trader, partnership, company or trust

You must make superannuation contributions for a contractor if their contract is wholly or principally for labour (more than 50% of the value of their contract is for labour).

WHAT YOU NEED TO DO

You need to:

- work out which workers are eligible
- offer choice of fund to eligible employees
- work out how much to pay and which complying super fund or retirement savings account to pay into
- pay at least quarterly by the cut-off dates
- understand what you need to do if you don't pay the minimum amount of super by the cut-off date
- pass on your employees' tax file number (TFN) to their super fund.

Working out which workers are eligible

Generally employees aged between 18 and 70 who are paid \$450 (before tax) or more in a calendar month are covered by the superannuation guarantee legislation, whether they work full time, part time or on a casual basis.

The definition of employees is extended for super purposes to include some additional categories of workers, including company directors, and contractors who wholly or principally supply labour.

Exceptions include employees who are:

- paid less than \$450 (before tax) in a calendar month
- aged 70 years and over
- non-resident employees paid solely for work done outside Australia
- under 18 years and employed for no more than 30 hours a week, or
- paid to do work of a domestic or private nature for not more than 30 hours a week.

Offer a choice of super fund

You are required to offer eligible employees a choice of super fund.

Provide new eligible employees with the *Standard choice form* (NAT 13080) within 28 days of their start date to allow them to nominate a fund for their super contributions. You should already have done this for existing employees.

How much you must pay

The minimum amount of super you must provide for your employees is equivalent to 9% of each employee's earnings base. For most employees their earning base is their ordinary time earnings as defined in the superannuation guarantee law.

Any existing super obligations under an industrial award count towards the minimum level of support. However, an employee's own contributions (for example, deducted from their salary) do not count towards an employer's obligations.

Where to pay contributions

Employer contributions must be paid at least quarterly into a complying super fund or retirement savings account.

If an employee doesn't choose a fund, you pay the contributions into the fund you have chosen as your employer nominated, or default fund. From 1 July 2008, an employer must nominate a super fund that offers minimum life insurance benefits for members.

If an employee chooses a fund and provides all of the necessary information to you, you must start paying contributions to the chosen fund within 2 months.

A super fund is complying if it meets specific requirements and obligations under super law.

 You can check the register of complying super funds at www.abn.business.gov.au

A retirement savings account is a type of account offered by:

- banks
- building societies
- credit unions
- life insurance companies
- prescribed financial institutions.

It is used for retirement savings and is similar to a super fund.

When to make payments

The table below shows the quarterly cut-off dates for superannuation guarantee payments. If the cut-off date for payment falls on a weekend or public holiday you should make the payment by the next working day.

Quarterly cut-off date for paying superannuation guarantee payments

Quarter	Cut-off date
1 July – 30 September	28 October
1 October – 31 December	28 January
1 January – 31 March	28 April
1 April – 30 June	28 July

Do you have to report to workers?

Some employers who are covered under workplace legislation, awards or agreements have an obligation to report super contributions on payslips.

Under tax law you do not have to report super contributions to your employees. However, doing so may help you manage employee relationships and staff enquiries, especially if you already have reporting systems in place.

WHAT TO DO IF YOU HAVEN'T MET YOUR SUPER OBLIGATIONS

If you haven't met your super obligations as an employer, you have to lodge a *Superannuation guarantee charge statement – quarterly* (NAT 9599) and pay a superannuation guarantee charge to us by the due dates outlined in the table below.

Quarter	Date for lodging statement and paying superannuation guarantee charge
1 July – 30 September	28 November
1 October – 31 December	28 February
1 January – 31 March	28 May
1 April – 30 June	28 August

You have to pay the super guarantee charge if you:

- do not pay enough super contributions (at least 9%) for your eligible employee (this is called a superannuation guarantee shortfall)
- do not pay super contributions by the quarterly cut-off date for payment
- do not pay super to your eligible employee's chosen super fund (this is called a choice liability), or
- pay a super contribution to a fund after the cut-off date for payment.

The superannuation guarantee charge is made up of three parts:

- superannuation guarantee shortfall amounts (including any choice liability)
- interest on that amount (10% per annum), and
- an administration fee (\$20 per employee per quarter).

Payments for super are normally tax deductible, but if you haven't met your obligations and have to pay the superannuation guarantee charge, no part of the superannuation guarantee charge is deductible.

Once you lodge a statement and pay the superannuation guarantee charge, we will transfer the superannuation guarantee shortfall amount and any interest to your employee's chosen super fund.

Changes to contribution offsets

On 2 October 2007, the government announced that it will allow employers to offset all super guarantee contributions paid late to a super fund. Currently, employers can only offset late contributions made within one month of the due date.

To find out more about this initiative, visit our website at www.ato.gov.au select Rulings policies and law – New legislation – Superannuation – Superannuation guarantee compliance made simpler for small business.

- For more information about your super responsibilities:
 - visit our website at www.ato.gov.au/super
 - phone us on **13 10 20**
 - refer to
 - *Superannuation guarantee – a guide for employers* (NAT 1987)
 - *Super, what employers need to know* (NAT 71038)
 - *Standard Choice Form* (NAT 13080)
 - *How to complete your superannuation guarantee charge statement quarterly* (NAT 9600)
 - *Employers and Tax File Numbers* (NAT 70999).

We have a range of web-based decision tools and calculators to help you work out and meet your superannuation guarantee obligations:

- Super Guarantee eligibility decision tool
- SG contributions calculator
- Superannuation guarantee charge calculator
- Employment Termination Payments calculator.

- To access these tools and calculators, visit our website at www.ato.gov.au and search using their titles.

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YOUR FRINGE BENEFITS TAX OBLIGATIONS

Fringe benefits tax (FBT) is a tax paid on certain benefits employers provide to their employees or their employees' associates (typically family members) in place of, or in addition to, salary and wages.

FBT is separate from income tax and is based on the taxable value of the various fringe benefits provided.

WHAT ARE FRINGE BENEFITS?

Basically, a fringe benefit is a benefit provided to an employee (or their associate) because that person is an employee.

If your business is operated through a company or trust, it's likely that you will be an employee (and/or director) of the company or trust.

For example, a fringe benefit may arise when you:

- allow an employee to use a work car for private purposes
- give an employee a low interest loan
- pay an employee's private health insurance costs
- provide cleaning services for an employee's private residence
- reimburse an expense incurred by an employee, or
- provide entertainment by way of food, drink or recreation to employees.

WORK-RELATED ITEMS EXEMPT FROM FRINGE BENEFITS TAX

You can provide some work-related benefits to employees without having to pay FBT. For example:

- a tool of trade, or
- an item of protective clothing.

Other items may be exempt; but the exemption only applies to items that are provided by an employer to an employee primarily for work purposes.

For these items, the exemption will be limited to one item of each type per employee, per FBT year, unless it is a replacement item. These include:

- a notebook or laptop computer
- a mobile phone
- other portable electronic devices, including those with multiple functions, or
- a briefcase.

⚠ The FBT exemption for these portable electronic devices is subject to passage of measures announced by the Federal Government in the May 2008 budget, and will apply to items purchased from 7.30 pm (AEST) on 13 May 2008.

YOUR FBT OBLIGATIONS

The following table summarises the fringe benefits tax obligations you have to yourself, employees and contractors, depending on your business structure.

Yourself	Sole trader or partnership If you are a sole trader or a partner in a partnership, you're not an employee of the business. FBT applies only to benefits you provide to your employees; it doesn't apply to benefits you provide to yourself. Company or trust If your business operates through a company or a trust, you are likely to be a director or employee. FBT obligations for fringe benefits provided to you will be the same as for other employees.
Employees	Sole trader, partnership, company or trust Regardless of your business structure, you are required to pay fringe benefits tax on all taxable fringe benefits received by your employees and/or their associates.
Contractors	Sole trader, partnership, company or trust Regardless of your business structure, if your workers are independent contractors you don't have any FBT obligations for them as they are not employees.

WHAT YOU NEED TO DO

If you provide fringe benefits to employees, you need to:

- calculate how much FBT you have to pay
- keep the necessary FBT records
- register for FBT
- report fringe benefits on employees' payment summaries, and
- lodge a return and pay FBT to us.

Calculating the amount of FBT you have to pay

Calculate the taxable value of each fringe benefit you provide to each employee (including those benefits you don't have to report on payment summaries). The rules for calculating the taxable value of a fringe benefit vary according to the type of benefit.

Keep the necessary records

You must keep all records related to providing the benefit, including how you calculated the taxable value of benefits.

Registering for FBT

We recommend that you register once you have decided to provide benefits.

Once you are registered, we will send you additional information to help you lodge your return.

➤ Download an *Application for registration – fringe benefits tax* (NAT 1055) from our website at www.ato.gov.au/employers or have one sent to you by phoning **13 28 66**.

Reporting fringe benefits on employee payment summaries

If you provide certain fringe benefits with a total taxable value of more than \$2,000 to an employee in an FBT year (1 April to 31 March), you must report the grossed-up taxable value of the fringe benefits on the employee's payment summary for the corresponding income year (1 July to 30 June).

Reporting and paying FBT

If you haven't previously paid FBT you make one payment for the year when you lodge your annual FBT return. In subsequent years we may ask you to make quarterly FBT instalments through your quarterly activity statements.

The annual FBT return is due by 21 May.

➤ For more information about employers providing benefits, refer to:

- *Introduction to fringe benefits tax* (NAT 1744)
- *Fringe benefits tax for small business* (NAT 8164)
- *Fringe benefits tax: a guide for employers* (NAT 1054)
- *Reportable fringe benefits: facts for employees* (NAT 2836).

Businesses report and pay most of their taxes through their activity statement and income tax return. Some businesses may have to lodge other forms, such as a fringe benefits tax return.

Businesses use an activity statement to report and/or pay:

- PAYG instalments
- PAYG withholding
- GST and related tax obligations
- fuel tax credits
- fringe benefits tax instalments, and
- some company and superannuation fund instalments.

When you apply for an ABN you tell us the expected start date for your business. We then send you the appropriate activity statement for the reporting period in time for you to complete and lodge it. It will be sent to the postal address you have elected for activity statements purposes.

Your activity statement is personalised, with some parts already filled in to save you time. It generally shows only the obligations that relate to you. For example, if you do not have a PAYG withholding obligation, this section will not appear on your activity statement.

LODGING ACTIVITY STATEMENTS

You must complete an activity statement at the end of each reporting period if you have any of the obligations mentioned earlier, even if you have nothing to report for that period.

You may receive more than one activity statement. For example, if you are a partner in a partnership registered for GST, the partnership will receive an activity statement for GST and you may also receive an activity statement for your individual PAYG instalment obligations.

If your only obligation is to pay PAYG instalments, you may only receive an instalment notice. The instalment notice will have information to advise you of your lodgement and payment requirements.

WHEN TO LODGE YOUR ACTIVITY STATEMENT

We print the due date for lodging on your activity statement, and the period covered by the activity statement for each of your obligations. It is important to lodge the form and pay any amount owing by the due date, as you may incur penalties if you lodge or pay late.

You generally have to lodge your activity statement or instalment notice monthly or quarterly. However, there may be some instances where you may choose to report your GST or PAYG instalments annually. Your activity statement or instalment notice will provide you with this option only if you are eligible.

If GST is the only obligation you have to report, you can lodge an annual GST return after the end of the year.

WHAT IF YOU CAN'T PAY

You must lodge your activity statement by the due date even if you can't pay the amount owing.

If you are experiencing difficulty in making payment, you should phone us on **13 11 42** before the due date to check whether alternative arrangements can be made.

HOW TO LODGE YOUR ACTIVITY STATEMENT

The easiest, most convenient and secure way to lodge your activity statement is:

- online using the Business Portal
- online using our electronic commerce interface (for businesses that need to lodge multiple activity statements each period), or
- online through your tax adviser.

You may be eligible for a two-week deferral if you lodge and pay your activity statement online. Terms and conditions apply; otherwise, you can lodge the paper activity statement we send you.

To lodge an activity statement with 'nil' to report at all labels, phone **13 72 26** and select the 'Nil' activity statement option from the 'lodgment' menu. You will need your Australian business number (ABN) and the document ID number from the front right side of the activity statement you want to lodge.

ACTIVITY STATEMENT TIPS

- Use the original form only – we cannot accept photocopies.
- If you lose a form, ask us for a replacement.
- Use a black pen only.
- Don't fill in any boxes you are not required to.
- Always lodge your activity statement by the due date even if you have nothing to report.
- If paying at a post office, remember that you still need to send your activity statement to us.
- Keep a copy for your records.

➤ For more information, refer to:

- *Goods and services tax – how to complete your activity statement (NAT 7392)*
- *PAYG instalments – how to complete your activity statement (NAT 7393)*
- *PAYG withholding – how to complete your activity statement (NAT 7394)*
- *Fuel tax credits – how to complete your business activity statement (NAT 15531)*
- *Fringe benefits tax – how to complete your activity statement (NAT 7389)*
- *Wine equalisation tax – how to complete your activity statement (NAT 7390)*
- *Luxury car tax – how to complete your activity statement (NAT 7391).*

You will probably be familiar with lodging your individual income tax return but may not have lodged a business tax return.

You may want to use a tax agent to prepare your return. However, even though your agent may prepare your income tax return, you have to sign it because you are ultimately responsible for providing accurate information on your return.

! It will be easier for you (or your tax agent) to complete your return if your records are complete and in good order.

LODGING INCOME TAX RETURNS

You must lodge an income tax return for any year you carry on a business, even if you expect to have no income tax liability.

Remember, activity statements are different from income tax returns. Even if you report your PAYG instalments and other obligations on an activity statement, you must still lodge an income tax return.

WHEN TO LODGE YOUR TAX RETURN

Individual tax returns are due by 31 October each year. If you use a tax agent, you may be able to lodge at a later date, but you need to register with an agent before 31 October.

Lodgment dates for companies may vary. We will tell you when you need to lodge.

Penalties can apply if you fail to lodge tax returns on time.

HOW TO LODGE YOUR TAX RETURN

Sole traders include all their business information in their individual tax returns, using a *Business and professional items schedule*. Sole traders (and other individuals) can lodge electronically using e-tax or through their tax agent.

Fast, convenient and secure, use e-tax to lodge your individual tax return online. All you need is access to a personal computer and the internet. Use of the software is free.

When using e-tax, you will be guided through an on-screen interview and your tax return will be completed based on your interview responses. It gives you an estimate of your individual tax refund or debt. More than 1.5 million annual returns are lodged using e-tax and most are processed within 14 days.

➤ To use e-tax, visit our website at www.ato.gov.au

Paper return forms (TaxPack) are available from us and from most newsagents. For business, you will also need the *TaxPack supplement* and *Business and professional items schedule*.

Partnerships, companies and trusts must each lodge separate returns. You can download these returns and instructions are available only from us.


- For more information, refer to:
- *TaxPack* (NAT 0976) and *Business and professional items schedule* (NAT 2543)
 - *Partnership and trust tax return instructions* (NAT 2297)
 - *Company tax return instructions* (NAT 0669).

PAYMENT OPTIONS

There are a number of options for paying amounts you owe us.

You should always include the relevant payment slip or EFT code details with your payment. Your EFT code is the payment reference number. It is printed directly above the barcode on your payment slip.

Whichever method you choose, your payment needs to reach us on or before its due date to avoid any late payment penalties.

 You cannot pay your bill or account by credit card and payments cannot be made at any of our offices.

BPAY®

Make a payment directly from your cheque or savings account to us using your financial institution's telephone or internet banking service.

You will need to quote the Tax Office biller code (75556) and the EFT code from the relevant payment advice.

Direct credit

You can transfer your payment to us online from your cheque or savings account.

Details you will need:

Bank: Reserve Bank of Australia
 BSB no: 093 003
 Account no: 316 385
 Account name: ATO EFT direct credit official administered receipts account
 Reference: Your EFT code from the relevant payment slip

Direct debit

You can have your payment automatically deducted from a cheque or savings account. You need to complete a *Direct debit request* (NAT 2284) form and return it to us.

You can also phone us **1800 802 308**, 8.00am-6.00pm Eastern Standard Time Monday – Friday or, email eft-information@ato.gov.au

Mail

The mailing address for payments is shown on the relevant payment slip, or pre-addressed envelope (if supplied).

You should include your payment slip or a note that states your:

- full name
- address and telephone number
- account identifier: TFN, ABN, client identification number etc.
- payment type: BAS payment, income tax, HELP etc.

Do not send cash, or use pins, staples, paper clips or adhesive tape to secure paperwork.


Australia Post

If you have a pre-printed payment slip with a barcode, you can pay in person at any Australia Post outlet. **Photocopies of payment slips are not accepted.**

A \$3,000 limit applies to cash payments. EFTPOS payments are subject to your financial institution's daily withdrawal limits.

If paying at a post office remember that you still need to send your activity statement to us.

Cheques and money orders should be for amounts in Australian dollars and payable to the Deputy Commissioner of Taxation.

-  Your cheque:
- should be crossed 'Not Negotiable'
 - must not be post dated.

PAYING FROM OVERSEAS

BPAY®

If you have an Australian bank account, see the directions for direct credit on page 53.

Direct credit through SWIFT or by mail

-  For more information about how to pay, visit our website at www.ato.gov.au/howtopay

To order a book of payment slips:

- phone **13 72 26** for activity statement payment slips – you will need your ABN to use this automated service
- phone **13 28 65** for personal income tax, Higher Education Loan Programme (HELP) or Student Financial Supplement Scheme (SFSS) payment slips – you will need your FN to use this automated service.

WHAT IF YOU CAN'T PAY RIGHT NOW?

If your debt is less than \$25,000, you can arrange to pay by instalments.

If you have a debt on your individual income tax assessment, phone **13 28 65**.

If you have a debt on your business income tax assessment, phone **13 72 26**.

You will need your tax file number (TFN) or Australian business number (ABN) to use these automated services.

If your debt is greater than \$25,000 (regardless of whether or not it is your individual or business debt) or you need more information about making a payment arrangement, phone us on **13 11 42**.

➤ For more information:

BPAY®, Direct credit, mail and Australia Post payment:

- phone **1800 815 886**
- email **payment@ato.gov.au**

Direct debit:

- phone **1800 802 308**
- email **eft-information@ato.gov.au**

BUDGETING TO PAY YOUR TAX

Budgeting for your tax obligations is the same as budgeting for any other business expenses. You need to estimate how much tax you will have to pay and then put sufficient money aside to cover the tax bill when it's due.

Because tax bills are often due quarterly or annually, you may overlook them when you budget for more frequent bills or expenses.

This is especially important in your first year of business, when you are probably not paying PAYG instalments towards your end-of-year tax liability. For more information about PAYG instalments and making early payments, see page 24.

You can make it easier to budget for your tax bill by:

- Monitoring your business cash flow. *Record keeping for small business* (NAT 3029) has tips on managing cash flow and a sample spreadsheet for monitoring cash flow.
- Estimating your income for the current financial year and your likely tax liability. Update your projections during the year as more information on sales and expenses becomes available.

An electronic record keeping system, will give you the information you need to budget for your tax.

Making an early payment?

You can make an early payment to offset a future liability by direct credit or BPAY using your EFT code, or by using a personalised payment advice form. Phone **13 72 26** to order personalised payment advice forms.

For most businesses the tax year runs from 1 July to 30 June. Once your business is operating, there are some important things you need to consider.

IS MY BUDGET WORKING?

By now you should have a picture of when and why money flows in and out of your business. You should be able to plan ahead to budget for paying your bills to suppliers and lenders, as well as your tax bills.

For example, do you always have enough set aside to cover GST and PAYG instalments when your activity statement is due?

If not, perhaps you need to improve your cash flow budgeting process. Keeping track of people who owe your business money (debtors) and people your business owes money to (creditors) helps keep tabs on your business finances.

➤ For more information, refer to *Record keeping for small business* (NAT 3029).

Are you lodging your activity statements return on time?

You could save time by lodging your activity statements electronically via the Business Portal. You may also be eligible for a two-week deferral if you lodge and pay your activity statement online – refer to the terms and conditions in *Activity statement lodgement essentials*. To view this information, visit our website at www.ato.gov.au and select For businesses – Activity statement essentials – Lodging your activity statement.

⚠ It is important to lodge (and pay) on time because you may incur penalties if you are late.

➤ For help with your activity statement:

- visit our website at [www.ato.gov.au/online services](http://www.ato.gov.au/online-services)
- phone **13 28 66**.

Are you lodging your tax return on time?

You must lodge an income tax return for any year in which you carry on a business, even if you expect to have no income tax liability.

Are you meeting your superannuation guarantee responsibilities?

Under the superannuation guarantee law you must contribute 9% of each eligible employee's earnings base to a complying super fund or retirement savings account at least quarterly. You also need to offer your eligible employees choice of super fund, act on your employee's choice, and pass on their TFNs to their super funds.

If you have not met your obligations you will need to lodge a *Superannuation guarantee charge statement – quarterly* (NAT 9599) with us by the superannuation guarantee charge due dates (28 Nov, 28 Feb, 28 May and 28 Aug). The superannuation guarantee charge is not an eligible business tax deduction.

➤ For more information, see superannuation guarantee on page 45.

Once you have been in business for a while, you may need to look at how you originally set up your business. As time goes on, you may need to change some things to make it easier to meet your tax obligations.

IS YOUR BUSINESS STRUCTURE STILL THE MOST SUITABLE FOR YOUR NEEDS?

A professional adviser can assess whether your current business structure is still the best for your business.

DO YOU NEED ADDITIONAL TAX REGISTRATIONS?

Changing business operations may mean you are now required to register for additional obligations, for example:

- GST – as your business sales increase you may exceed the GST registration threshold. If you do, you should register for GST within 21 days
- PAYG withholding – if you start to employ workers, you will need to register for PAYG withholding
- Fringe benefits tax – if you or your employees are receiving fringe benefits (for example, use of a company car), you may need to register for fringe benefits tax.

DOES YOUR CURRENT PATTERN OF REPORTING GST SUIT YOUR BUSINESS?

If you are reporting monthly, you may want to consider reporting quarterly or even reporting annually and paying by instalments worked out by us (if you are eligible). You will still be able to make regular voluntary payments towards your end-of-year liability.

Eligible quarterly lodgers can also elect to report and pay GST annually.

IS YOUR RECORD KEEPING SYSTEM WORKING FOR YOUR BUSINESS?

Are your records up to date? Is your record keeping system providing you with the information you need?

Is it time to go electronic? If you are using a manual record keeping system, perhaps you could save time with an electronic system.

Should you employ someone to do your bookwork while you concentrate on growing the business?


DEALING WITH US ONLINE

You may save time and money by dealing with us online. You can use the Business Portal:

- lodge your activity statement and revise, view and print details of previously lodged activity statements
- view your activity statement, income tax, fringe benefits tax and certain super accounts online
- request transfers and refunds of credit amounts
- view and update most business registration details, including your address and bank account details, and
- send to and receive from us secure messages about information available on the Business Portal.

Handy tools:

- superannuation guarantee eligibility tool and calculators
- record keeping evaluation tool
- fringe benefits tax (FBT) car calculator, and
- tax withheld calculator.

 To access these tools and calculators, visit our website at www.ato.gov.au and search using their titles.

DEALING WITH SIGNIFICANT ONE-OFF TRANSACTIONS

During the life of your business you will occasionally undertake unusual or one-off transactions. Some of these transactions may create tax issues you do not have to consider in everyday trading.

For example, if you are registered for GST, you may need to include GST in the price of business assets you sell when you sell or trade in your business vehicle. If you sell a business asset (for example, your business premises), you will need to work out if it is subject to capital gains tax.

If you are unsure about how to treat unusual or large transactions, talk to your tax adviser or to us.

There are a number of tax matters you may need to attend to if you cease to operate a business, sell the business, or register a business but don't actually start the business.

These may include:

- cancelling your ABN and other registrations
- lodging and paying any outstanding activity statements/ instalment notices
- making GST adjustments on your final activity statement, and
- lodging final tax returns.

You should also check whether your state or territory government has any special requirements.

- For more information about cancelling tax registrations:
 - refer to *What you need to tell the Tax Office when your business ceases* (NAT 11108), or
 - phone **13 28 66** and we will help you work through what you need to do.

- For more information about government regulations concerning company and business name deregistration, employee payments, and specific state or territory requirements, visit **business.gov.au** and go to **Selling your business and assets**.

GST

The sale of a business as a going concern is GST-free if:

- everything necessary to continue to operate the business is supplied to the buyer
- the seller carries on the business until the day it is sold
- the buyer is registered or required to be registered for GST
- the sale is for consideration, and
- before the sale, the buyer and seller agree in writing that the sale is of a going concern.

If you are registered for GST, you may need to include GST in the price of individual business assets you sell.

CAPITAL GAINS TAX

You may have to pay capital gains tax on the sale of business assets such as land or buildings, or intangible assets such as patents, licences or goodwill.

But you may be able to use the discount method and one or more of the small business capital gains tax concessions to reduce the taxable gains.

- For more information refer to:
 - *Guide to capital gains tax* (NAT 4151)
 - *Guide to capital gains tax concessions for small business* (NAT 8384)
 - *Tax concessions for small business entities* (NAT 71874).

Remember to keep your business records for at least five years after the end of the financial year in which you sell or cease your business.

DEFINITIONS

Activity statements

You use an activity statement to report your business tax entitlements and obligations, including GST, PAYG instalments, PAYG withholding and FBT instalments. You can offset tax payable against tax credits to arrive at a net amount.

Associates

Associates include people and entities closely associated with you, such as relatives, or closely connected companies or trusts. A partner in a partnership is an associate of the partnership.

Australian business number

Your Australian business number (ABN) is your identifier for certain dealings with us and other government departments and agencies.

Enterprise

An enterprise includes a business. It also includes other commercial activities but does not include:

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

It includes the activities of entities such as charities, deductible gift recipients, religious and government organisations, and certain non-profit organisations.

Entity

For the purposes of this guide, an entity means an individual, a body corporate (for example, a company), a body politic, a partnership, an unincorporated association or body of persons, a trust or a super fund.

GST-free sales

You do not include GST in the price of GST-free sales that you make, but you are entitled to GST credits for things you have purchased or imported for use in your business. Some examples of GST-free sales include basic food, exports, sewerage and water services, the sale of a business as a going concern, non-commercial activities of charities, and most education and health services.

GST credit (input tax credit)

You are entitled to a GST credit for the GST included in the price of purchases or importations you make for use in your business. But you are not entitled to a credit to the extent you use the purchase or importation for private purposes or, in many cases, to make input taxed sales.

You must have a tax invoice to claim a GST credit (except for purchases with a GST-inclusive value of \$82.50 or less,

although you should have some documentary evidence to support these claims).

Input taxed sales

You do not include GST in the price of input taxed sales you make, but neither are you entitled to GST credits for things you have purchased or imported that relate to making those input taxed sales. In some cases, you may be entitled to claim reduced GST credits. Input taxed sales include most financial supplies and supplies of residential rent and residential premises (other than new residential premises).

Instalment income

Generally speaking, instalment income is your total ordinary income for the period in which you are paying your PAYG instalment.

NAT number

Most of our publications have a NAT number (our catalogue number), which we generally show in brackets after the title of the publication, for example, *Tax basics for small business* (NAT 1908).

Tax invoice

A tax invoice is a document generally issued by the seller.

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 Australian business number of the seller. You must have a tax invoice before you can claim a GST credit on your activity statement for purchases of more than \$82.50 (including GST).

Tax period

A tax period is the length of time for accounting for GST on your GST return – which is usually your activity statement. There are quarterly, monthly and annual tax periods.

Quarterly tax periods are periods of three months ending on 30 September, 31 December, 31 March and 30 June. Monthly tax periods end on the last day of each calendar month. An annual tax period is the financial year or that part of the financial year for which the entity is a GST instalment payer.

An activity statement must be lodged for each quarterly or monthly tax period. An annual GST return is lodged by GST instalment payers or by entities that are voluntarily registered for GST.

Turnover

Turnover is income earned by a business before deducting any costs for expenses. Turnover is sometimes referred to as gross receipts, gross sales or gross revenue. It does not include any amounts of GST collected. For GST purposes, the turnover of an entity does not include all sales. For example, sales that are not connected with Australia are not included when calculating current or projected GST turnover.

SUPPORT FOR SMALL BUSINESS

ONLINE SERVICES

Going online is the fast and convenient way to do business with us. There are a range of services to help businesses manage their tax affairs online.

Our website at www.ato.gov.au/businesses

Find out more about electronic record keeping software, *e-Record*, and tax essentials for new and existing businesses.

Online resources at www.ato.gov.au/onlineservices

We offer a range of fast, convenient and secure online calculators and tools to make it easier for you to comply with your business tax obligations.

Business portal at www.bp.ato.gov.au

The Business portal can help reduce the time and paperwork associated with your tax transactions. To apply for access, visit www.ato.gov.au/onlineservices

This secure website is available at any time.

You can use the portal to:

- lodge an activity statement and receive instant confirmation that you've been successful
- revise your activity statements online
- view details of previously lodged activity statements
- view your activity statements online
- view your business registration details
- update certain business registration details (address, contact details)
- request a refund for accounts in credit
- request a transfer of amounts across your different business accounts
- send a secure message to us and receive a secure response from us on selected topics.

Australian Business Register at www.abr.gov.au

You can use this register to:

- apply for a business tax file number (except for sole traders)
- register for or cancel an Australian business number (ABN)
- register for goods and services tax (GST) and pay as you go (PAYG) withholding
- access your ABN details and update them as required
- check the details of other businesses, such as their ABN or GST registration
- register for fuel tax credits.

Business entry point at www.business.gov.au

This website offers convenient access to government information, transactions and services. It is a whole-of-government service providing essential information on planning, starting and running your business.

e-Record

e-Record is our free electronic record keeping software, designed to help you keep good business records. Available in PC and Macintosh versions, it is suitable for businesses that:

- operate on a cash accounting basis
- currently keep paper records, and
- have one bank account.

You can download a copy from www.ato.gov.au/erecord or by phoning **13 72 26** to order a CD-ROM (NAT 3043).

ONLINE PAYMENT METHODS

BPAY®

Use the link from the Business Portal or your financial institution's BPAY facility to pay all your tax online.

Direct credit

You can make an electronic payment using internet banking or a banking software package.

FACE-TO-FACE

Business seminars and workshops

We run small business seminars and workshops on a range of topics, including GST, PAYG, activity statements and record keeping. Visit www.ato.gov.au or phone **1300 661 104** to find out whether there is a seminar or workshop near you or to make a booking.

Business assistance visits – no strings attached

If you would like personalised, specialist assistance or if you are new to business, you can organise a business assistance visit by contacting **13 28 66**. Visits are confidential and conducted at your place of business or preferred location.

PHONE

You can obtain more information by phoning us on:

Business infoline – 13 28 66

Monday to Friday 8.00 am to 6.00 pm

- ABN & GST registration and change of details
- activity statements, *e-Record* and PAYG
- account queries, including payments and refunds
- fringe benefits tax, income tax, capital gains tax
- fuel tax credits

ATO Business Direct – 13 72 26

Self-help service 24 hrs/7 days

(Make sure you have your ABN and TFN handy when calling)

- Verify an ABN
- Lodge a nil activity statement
- Arrange to pay a debt
- Where's my refund?
- Order PAYG withholding forms
- Register for fuel tax credits

Superannuation infoline – 13 10 20

Monday to Friday 8.00 am to 6.00 pm

- Super co-contributions
- Lost superannuation monies
- Unpaid superannuation
- Superannuation guarantee
- Self managed super funds, including trustee responsibilities
- Help with the taxation of super including employer termination payments, pensions and annuities

Personal Tax Infoline – 13 28 61

Monday to Friday 8.00 am to 6.00 pm

- Personal tax enquiries – TaxPack, e-tax, family tax benefit and baby bonus, HELP, notice of assessment, tax file number

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

MORE INFORMATION

For more information about your tax obligations as a business operator, refer to:

- *Recordkeeping for small business* (NAT 3029)
- *GST for small business* (NAT 3014)
- *Super – What employers need to know* (NAT 71038)
- *Concessions for small business entities* (NAT 71398)
- *PAYG withholding for small business* (NAT 8075).

To obtain copies of our publications:

- visit our website at www.ato.gov.au/onlineordering
- phone **1300 720 092**.

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