

TAXATION 101
TAX BASICS EXPLAINED



SRJWW

Growing Business Growing People

- **Who are we?**
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TAXATION 101

Tax Basics Explained

- What is income tax?
- What is taxable income?
 - Assessable Income
 - Allowable Deductions
- How much tax do I pay?
 - Individuals/Sole Traders/Trusts/Partnerships v Companies
 - Tax Offsets
- How do I pay tax?
- Who has to lodge Income Tax Return?
- What is GST and how do I pay it?

What is Tax?

- Contribution to government revenue levied on individuals, businesses, property, goods etc
- Direct Tax = paid by person 'earnt' income
 - Income Tax
 - Fringe Benefits Tax
- Indirect Tax passed onto end consumer
 - GST
 - Stamp Duty
 - Fuel Tax
 - Excise & customs duty

Types of Taxes

| Federal | State or Territory | Local |
|-------------------------------|--------------------|---------------|
| Income Tax | Payroll Tax | Council Rates |
| Fringe Benefits Tax | Stamp Duty | |
| Goods and Services Tax | Land Tax | |
| Excise on fuels, tobacco etc | | |
| Customs Duty | | |

What is income Tax?



Income tax is paid on Taxable Income



Taxable Income = Assessable Income – Allowable Deductions

Assessable Income

Assessable Income = Ordinary Income + Statutory Income – Exempt Income

- Ordinary Income
 - 9 key characteristics
 - Beneficial receipt
 - Money or money's worth
 - Exhibits regularity
 - Normal proceeds of personal exertion, property or business
 - Even if illegal or immoral may still be income
 - Compensation receipts may be income if replace loss of income stream

Assessable Income

- Statutory Income – eg Capital Gains
- Exempt Income
 - Exempt entities – NFP's, charities etc
 - Exempt Income – some social security/pension payments etc

Types of Assessable Income

1. Income from personal exertion
 - salary & wages
2. Income from property
 - rent, dividends, interest
3. Income from business

Derivation of Income

- Cash v Accruals
- Basis of accounting/assessment is dependant on type of income derived

| Type of Income | Derivation Rule |
|---|--|
| Income from Personal Exertion | Cash |
| Trading (Business) Income | Accruals |
| Revenue received in Advance (unearned Income) | Non-Refundable = Cash Refundable = Accruals |
| Income from Professional Practices | Small = Cash Large = Accruals |
| Income from Property (Rent, Interest and Dividends) | Cash |

Are you running a business?

5 “badges of business”

1. Repetition of acts and transactions
2. Commercial nature of activities
3. Size and Scale of activities
4. Profit Motive
5. Conducted in continuous/systematic way

Allowable Deductions

- Expenses incurred in producing assessable income
- To the extent that relates to that income = apportionment

UNLESS

- Capital in nature
- Private or domestic in nature
- Relates to exempt income
- Provision of ITAA (1997) or (1936) prevents it

Individual Tax Rates

- Marginal Rates = progressive tax system
- Resident v Non-resident
- Australian tax resident taxed on income from all sources (within or outside Australia)

Resident Individual Tax Rates for 30 June 2021

| Taxable Income | Tax Payable |
|-----------------------|---|
| 0 - \$18,200 | Nil |
| \$18,201 - \$45,000 | 19 c for each \$ over \$18,200 |
| \$45,001 - \$120,000 | \$5,092 + 32.5c for each \$ over \$45,000 |
| \$120,001 - \$180,000 | \$29,467 + 37c for each \$ over \$120,000 |
| \$180,001 and over | \$51,667 +45c for each \$ over \$180,000 |

So how much tax do I pay on \$100,000?

| | |
|------------------|------------------------------------|
| \$ 45,000 | \$ 5,092 |
| <u>\$ 55,000</u> | <u>\$17,875</u> (\$55,000 @ 32.5%) |
| \$100,000 | \$22,967 |

Plus Medicare Levy @ 2%

Medicare Levy

- 2% Taxable Income unless
 - Low income earner qualify for medicare levy reduction (single and family thresholds)
 - Medicare Levy Exemption
- On \$100,000
 - Tax Payable \$22,967
 - Medicare Levy @ 2% \$ 2,000
 - Total Payable \$24,967

Medicare Levy Surcharge

- If don't have appropriate private hospital cover above thresholds

| Threshold | Base Tier | Tier 1 | Tier 2 | Tier 3 |
|------------------------------------|--------------|--------------------------|--------------------------|-------------|
| Single | < \$90,000 | \$90,001- \$105,000 | \$105,001- \$140,000 | > \$140,001 |
| Family | <\$180,000 * | \$180,001 - \$210,000 | \$210,001 - \$280,000 | >\$280,001 |
| Medicare Levy Surcharge | 0% | 1% | 1.25% | 1.5% |

* Plus \$1,500 for each dependent child after the first child

Tax Offsets

- Tax offset reduces amount of tax you pay
- Non-refundable tax offsets
 - Low income rebate
 - Invalid or Invalid carer rebate
 - Private Health rebate (if not claimed directly from fund)
 - Beneficiary and seniors/pensioner tax offset
 - Superannuation Related Tax offsets
 - Zone tax offsets
 - Lump sum payments in arrears

Tax Offsets

- Refundable Tax Offsets
 - TFN Withholding Tax
 - Franking Credits
 - PAYG Withholding Tax
 - PAYG Instalments Paid

Tax Offsets v Tax Deductions

- Non Refundable Tax Offsets = good
- Refundable Tax Offsets = great!
- Tax Deduction or a Tax Offset?
 - Deduction = good
 - Tax Offset =Great!
 - Why? Because Tax Offsets give you a \$ for \$ reduction in your tax payable.

What about Partnerships and Trusts?

- Not separate legal entities
- Partnership – Income distributed to partners in accordance with partnership agreement and taxed accordingly
- Trusts – Income distributed to beneficiaries and taxed accordingly
 - Discretionary (family) trust
 - Fixed (unit) Trust
 - Subject to special “rules” regarding present entitlement and legal disability

Company Tax Rates for year ending 30 June 2021

- No tax free threshold
- 30% tax rate on taxable income UNLESS
- Base Rate Entity = 26% (down from 27.5% in 2020) where
 - Aggregated turnover <\$50mill

How do you pay tax?

- PAYG Withholding (Individual - salary & wage)
- PAYG Instalments
 - Business and investment income
 - Individuals and Companies
 - Paid via Instalment Activity Statement (IAS) or Business Activity Statement (BAS)

Lodging an Income Tax Return

- Individuals
 - If taxable income >\$18,200
 - If taxable income <\$18,200 and tax withheld (PAYG or PAYGI)
 - Reportable fringe benefit amounts
 - Reportable employer superannuation contributions
 - Carried on a business
 - Incurred business losses as sole trader
 - Did not claim appropriate private health rebate
 - Received income subject to averaging provisions
 - Claiming personal superannuation contributions
 - Exceed superannuation contributions caps
 - Liable for child support
 - **If not required – submit non-lodgement advice**
 - **Due 30 October unless use Tax Agent**

Lodging an Income Tax Return

- Trusts/Partnerships – 31 October unless use Tax Agent
- Companies
 - Small Company – 28 February unless outstanding prior returns or use Tax Agent
 - Large/Medium Company – 15 January unless use Tax Agent

Goods and Services Tax

- 10% broad based indirect tax on consumption
- Price of all goods and services must be shown inclusive of GST
- Charged and collected by registered entities at each stage in the chain
- Input tax credit – credit for GST paid

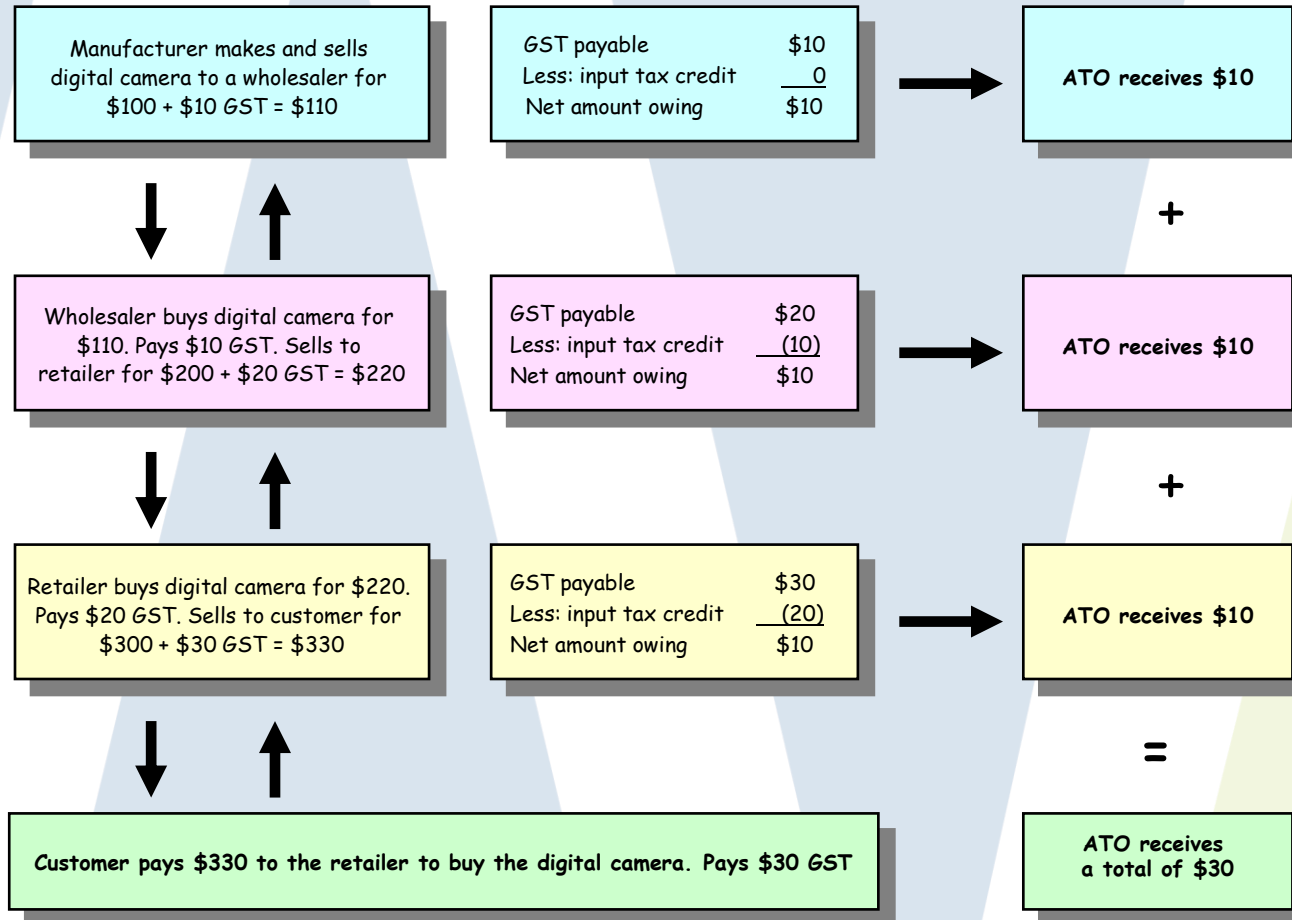
Goods and Services Tax

- Registration thresholds:
 - \$75,000
 - \$150,000 not-for-profit organisations
- 2 methods of accounting for GST
 - Cash Basis <\$10mill aggregated turnover
 - Accruals Basis >\$10mill aggregated turnover
- GST remitted on Business Activity Statement

Goods and Services Tax

- GST remitted on Business Activity Statement
 - Quarterly – GST turnover <\$20million
 - Monthly – GST Turnover >\$20million
 - Annually – Voluntarily registered and turnover < GST Thresholds

How the GST Works



How the GST Works

- Taxable Supplies
 - Price = Value + 10% GST
 - Sell TV \$1,000 + GST (10% x \$1000) = \$1,100
 - **In order to calculate the amount of GST included in the price of goods or services, you simply divide by 11**

Eg total price (incl GST) = \$1,100

GST = 1,100/11 = \$100

How the GST Works

Non Taxable Supplies

- GST-Free Supplies – basic food, health, education, exports for consumption outside Australia etc
 - Don't charge GST but can claim input tax credits
- Input-Taxed Supplies – financial services (loans, interest, dividends), residential rent/premises
 - Don't charge GST but cannot claim input tax credits

How the GST Works

| <i>Type of Supply</i> | <i>Charge the 10% GST? (ie. GST Collected)</i> | <i>Claim Back Input Tax Credit? (ie. GST Paid)</i> |
|-----------------------|--|--|
| Taxable | √ | √ |
| GST-Free | x | √ |
| Input-Taxed | x | x |

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Thank you for tuning in.

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