

## Tax basics for business operators

### Main topics

- Tax basics
- How tax works for different business structures
- Summary of business taxes and payments
- Claiming deductions for business expenses
- Why keep good business records?
- Contacts for information and support

### The basics:

- the type of business structure you choose affects how you pay tax and how much. Before you choose a business structure (for example, a company), carefully check its tax and other obligations
- make sure you keep good records as this will save you money and time
- accounting software is well worth purchasing as it can also process GST
- the Tax Office has online resources including the *Checklist for new business*, printed publications, free record-keeping software, and seminars

## Tax basics

All businesses are legally required to pay tax. Australia has self-assessment taxation, which means you (or your tax professional) have to work out your tax obligations and pay the correct amount to the Australian Taxation Office (ATO) by the due date. You will have to keep records to support your calculations.

For most businesses, the income tax year (or 'financial year') runs from 1 July to 30 June. Commonwealth or state taxes (and sometimes exemptions) will apply to your business, depending on your size and location.

- **Commonwealth taxes:** the Australian Tax Office (ATO) administers federal taxes, including income tax, the Goods and Services Tax (GST), and Fringe Benefits Tax (FBT).
- **State taxes:** the State Revenue Office (SRO) administers Victorian taxes, including Payroll Tax, Land Tax and Land Transfer Duty.

■ **How income tax is collected** Income tax is collected in two ways: the pay as you go (PAYG) system and annual income tax returns. If you're in business, you'll probably have to pay quarterly instalments to pay your income tax as you earn your income. The tax office will credit your quarterly PAYG instalments against your annual income tax liability at the end of the tax year. You pay tax on your taxable income, which is the assessable income minus any allowable deductions.

■ **Tax File Number (TFN)** The tax office issues everybody with a TFN. Your TFN is yours for life, even if you change jobs, move interstate or change your name. Partnerships, trusts and companies have their own TFN.

■ **Australian Business Number (ABN)** Every business has an ABN for GST and other business tax registrations. You will need to quote your ABN, for example, on invoices, even if you're not registered to collect GST. You can apply for your ABN online at the Australian Business Register website ([abr.gov.au](http://abr.gov.au)).

■ **Business Activity Statement (BAS)** Businesses report and pay most of their taxes through their BAS and income tax return. The BAS is used to report and pay GST, PAYG, fuel tax credits, fringe benefits tax and some company and superannuation fund instalments. Your BAS is personalised, with some parts already filled in. BAS can be paid on a quarterly or monthly (if you are voluntarily registered for GST, it can be annually).

■ **Tax concessions for small business** The Tax Office offers tax concessions to small businesses with an annual turnover less than \$2 million. The

### Step-by-Step Guides

■ New starters can get step-by-step help with the key aspects of business taxation by using the online Step-By-Step guide *Financial Planning*

All guides provide you with a handy checklist to help you complete tasks. Go to [business.vic.gov.au/stepbystep](http://business.vic.gov.au/stepbystep)



## Tax basics for business operators

### Tip

The Tax Office booklet, *Tax Basics for Small Business* covers many of the tax topics mentioned here in more detail.

The booklet can be downloaded or printed from the Tax Office website (look in the *Booklets and publications* section) or ordered from the Tax Office by phone.

Tax Office contact details are on the last page.

concessions reduce red tape and compliance costs for depreciation and trading stock rules. An eligible business can choose the concessions most suited to its needs. If you're already using these concessions (under the Simplified Tax System which ended 30 June, 2007), these changes won't affect you. For more details visit the Tax Office website. ([ato.gov.au](http://ato.gov.au))

### How tax works for different business structures

The type of business structure you choose affects how you pay tax and how much. Before you choose a business structure (for example, a company), carefully check its tax and other obligations. Refer to the information sheet *Choosing the best structure for your business*, available on the Small Business Victoria website ([business.vic.gov.au](http://business.vic.gov.au)).

#### Sole trader

- **Description:** A sole trader is the simplest business structure — an individual trading on their own. They control and manage the business.
- **Tax file number:** A sole trader uses their personal tax file number when they lodge their income tax return.
- **ABN:** A sole trader may apply for an ABN for their business and use this number for all their business dealings.
- **How tax is paid:** Any business income is treated as the person's individual income. They are responsible for any tax payable by the business. This means that after deducting allowable expenses, they include the business income and add it to their individual tax return. Sole traders pay the same tax as individual taxpayers, that is, at the 'marginal tax' rates. Individuals don't pay tax on the first \$6,000 they earn ('the tax-free threshold').

#### Partnership

- **Description:** For tax purposes, a partnership is an association of persons that run a business as partners or receive income jointly.
- **Tax file number:** A partnership needs its own tax file number and uses it when lodging its annual income tax return.
- **ABN:** The partnership may apply for an ABN and use this for all partnership business dealings.
- **How tax is paid:** A partnership is not a separate legal entity and doesn't pay income tax on the income earned by the partnership. Instead, partners pay tax on their share of net partnership income. The partnership nonetheless has to lodge a separate annual partnership income tax return

#### Company

- **Description:** A company is a distinct legal entity with its own income tax liability, separate from an individual's income tax.
- **Tax file number:** The company must register for a tax file number and use it when lodging its annual income tax return.
- **ABN:** A registered company is entitled to an ABN.
- **Australian Company Number (ACN):** A registered company must display its ACN on its public documents.
- **How tax is paid:** Money earned by the business belongs to the company. Companies must lodge an annual company tax return and usually pay PAYG instalments. Company tax rates are lower than personal tax rates.

## Tax basics for business operators

### Tip

When choosing an accountant you might want to consider looking for one specialising in small business and who also offers a business coaching service.

Also, ask them which business accounting software package they use — before you buy your own.

### Trust

- **Description:** A trust is an obligation imposed on a person to hold property or income for the benefit of others (the trust 'beneficiaries').
- **Tax file number:** A trust must have its own tax file number.
- **ABN:** If the trust is a business operating in Australia, the trustee may register with the TAX OFFICE for an ABN.
- **How tax is paid:** Depends on the type of trust, and how the trust distributes income to the trust beneficiaries.

---

## Summary of business taxes and payments

■ **Goods and services Tax (GST)** The GST is a broad-based tax of 10 per cent on the sale of most goods and services. Generally, registered businesses include GST in the price of sales to their customers and claim credits for the GST included in the price of their business purchases.

While GST is paid at each step in the supply chain, businesses don't actually pay the tax. This is because they include GST in the price of the goods and services they sell, and can then claim credits for most GST included in the price of goods and services they buy. The final consumer bears the cost of GST as they can't claim GST credits.

You must register for GST if:

- your business has an annual turnover of \$75,000 or more
- you provide taxi travel as part of your business, regardless of your annual turnover

Registering for GST entitles you to claim input tax credits for GST included in the price you pay for goods/services used in your business. If you're not registered for GST, you can't claim input tax credits. When you register, you must decide if you are going to report on and pay GST on a monthly or quarterly basis (or annual basis if you are voluntarily registered for GST) and if it will be on a cash or non-cash basis. The figures above were correct when published, check the Tax Office ([ato.gov.au](http://ato.gov.au)) website for the current figures.

■ **Capital Gains Tax (CGT)** If you sell or dispose of a business asset for more than it cost, you've made a capital gain and may have to pay CGT. You calculate your annual net capital gain at the end of each tax year. The final CGT total is the difference between your total capital gains and capital losses for the year, less any relevant CGT discounts or concessions. CGT is not a separate tax, rather, it is a part of your annual income tax assessment. The tax office expects you to keep a record of capital gains and losses of assets year to year for tax reporting purposes.

■ **Pay As You Go (PAYG) instalments** The PAYG instalment system is used if you are a sole trader, partner in a partnership or an employee of your own company. The Tax Office expects you to pay quarterly PAYG tax instalments on your taxable income, but these normally start after your first year in business.

When you submit your annual income tax return, the Tax Office assesses your tax liability for the entire tax year. The Tax Office will then credit any PAYG instalments you made during the year to see if you owe any tax. (Note that PAYG instalments are different to PAYG withholding, which is explained below.)

## Tax basics for business operators

### Tip

Make best use of your tax adviser. Rather than paying them to sort through a shoebox of paperwork, give them well-prepared records and pay them instead to help you with your business and financial planning.

■ **Special taxes** Other items, such as wine, luxury cars, petrol, tobacco and alcohol have special tax implications. Check with the Tax Office for details.

■ **Land tax** The *Land Tax Act 1958* imposes an annual tax on the total unimproved value of all land owned in Victoria at midnight on 31 December of the year prior to the year of assessment. The State Revenue Office (SRO) issues assessments from March to June each year.

### Payments you have to make if employing staff

■ **Pay As You Go (PAYG) withholding** If you have employees you generally withhold money from the payments you make to them, make contributions towards their superannuation and pay fringe benefits tax if you provide fringe benefits for them or their associates.

You need to register for PAYG withholding, calculate how much to withhold from payments and report and pay the withheld amounts to the Tax Office. You also record the amounts in your quarterly activity statement and annual tax return. The Tax Office offers an online *Tax Withheld Calculator*.

■ **Superannuation** This is not actually a tax, but if you employ staff you may have to pay a basic rate of superannuation for them. The current rate is 9% of the employee's base earnings. You pay the money to a superannuation fund at least quarterly, and report to the Tax Office quarterly. Payments for superannuation are tax deductible and are covered by (federal) superannuation guarantee legislation.

■ **Fringe benefits tax (FBT)** This 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 or wages. FBT is separate from income tax and is based on the taxable value of the fringe benefit. The term 'benefit' is broadly defined and includes any right, privilege, service or facility. So a benefit could be the use of something (for example, the use of a car), or of a house or of equipment, ownership of something (for example, clothing), or enjoyment of a privilege or facility.

■ **Pay-roll tax** Pay-roll tax is a Victorian state tax; currently payable at the rate of 4.95 per cent calculated on wages paid by an employer. The State Revenue Office (SRO) collects and administers pay-roll tax. Victorian employers must register for and pay pay-roll tax if their total Australian wages exceed the Victorian general exemption level of \$45,833 a month or \$550,000 over the full financial year; and/or it is grouped with other businesses and the combined Australian wages of the group exceed the Victorian general exemption level. Figures were correct when published, check the State Revenue Office website ([sro.vic.gov.au](http://sro.vic.gov.au)) for current figures.

# Tax basics for business operators

## Free tax basics seminars

The Tax Office run free tax basics seminars, especially for people starting out in business. Existing business operators are also welcome to attend.

### Topics include:

- income tax
- business expenses
- business structures
- superannuation guarantee
- record keeping
- Business Activity Statements (BAS)
- Goods and Services Tax (GST)
- Capital Gains Tax (CGT)
- Pay As You Go (PAYG)
- Simplified Tax System (STS)
- employing people

To register, or for more details, call the Tax Office on 1300 661 104.

## Claiming deductions for business expenses

Under income tax law, you can generally claim a deduction for expenses you incur to run a business. That is, if you need to spend it for your business, you can usually claim it somehow. There are some basic rules. You must have spent or plan to spend the money, and the expense must be business related. You must be able to show why you had to spend the money to run the business. What deductions will the Tax Office allow? There's no complete list of what you can claim because what businesses do, and how they do it, varies.

These common expenses can generally be deducted from gross income:

- rent or lease of business premises (including home business premises)
- electricity, gas, water, insurance
- business motor vehicle expenses, transport and freight
- hire, lease or repairs of plant and equipment
- decline in value of depreciating assets (depreciation)
- registered tax agent fees
- employee wages, superannuation payments, WorkSafe injury insurance premiums
- cost of trading stock
- business travel (away from home)
- interest on borrowed money, bank fees and charges

**Tax deductions for motor vehicles** Expenses for business purpose vehicles are generally deductible. These are vehicles such as trucks or vans that have a dedicated business use and some smaller vehicles (such as utilities or panel vans) where private use is restricted to home-to-work travel. (Note that some types of vehicles do not qualify as a 'car' for vehicle deductions.) How much you can claim as a deduction depends on your business structure. Businesses using fuel may also be eligible for fuel tax credits. Check with the Tax Office for more information. Contact details are on the last page.

**Business travel** For sole traders and partnerships the travel expenses you incur running your business are deductible. The rules for deductions and the records you need to keep depend on whether you stay away from home and for how long. If travel is for both business and private purposes, you can't claim the private expenses. Different rules apply to companies and trusts.

**Tax deductions for home-based business** The Tax Office allows you to claim two types of expenses normally associated with running your home, running and occupancy expenses. If you set aside a specific work area then you can claim both. If you haven't set aside an area just for the business, then you can only claim running expenses. If you want to avoid the calculations, the Tax Office offers a simple hourly rate deduction. Alternatively, the Tax Office offers an online *Home office expenses calculator*. Be sure to record the method you use to calculate your deductions.

Table 1: Running and occupancy expenses you can claim deductions for

Some running expenses are	Some occupancy expenses are
Electricity for light heating cooling, computers etc	Rent
Printer consumables	Mortgage interest
Cleaning	Insurance premiums
Phone costs	Council rates
Decline in value of fittings such as curtains, chairs	

Check these Tax Office website pages and booklets for more information: *Carrying on a business at or from your home*, the *Home office expenses calculator*, and *Record keeping for small business*

## Tax basics for business operators

### Tip

The Tax Office expects you to be able to explain all your business transactions — just one reason to keep good records.

The Tax Office offers a free record keeping software tool for cash-based businesses with one bank account, called e-Record. You can download this from their website or order it on CD.

Tax Office contact details are on the last page.

**Depreciation** Business assets lose value over time and have a limited life. Depreciation is a way to claim for their loss in value. Some examples of assets the Tax Office allows you to claim depreciation on are computers, electrical tools, furnishings, carpet and curtains, and business 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 you expect to use the asset for business purposes. The Tax Office publishes a list of assets and their 'effective lives', or you can self-assess the effective life of your depreciating assets.

---

### Why keep good business records?

**Why keep good records?** Apart from being legally obliged to keep records, there are several reasons to keep good records of business transactions:

- it makes it easier to complete your activity statements, annual income tax and fringe benefits tax returns
- you can keep an eye on the health of your business and make sound business decisions, for example, calculate if you will have enough cash in six months
- lenders or possible buyers may ask you for proof of your financial position

**Electronic or manual records?** You can record the information from your business transaction documents in a cashbook, either electronically or manually. Recording your transactions manually can be as simple as using an exercise book, but it's probably a good idea to buy a commercial cashbook from a newsagent or stationer.

To record your transactions electronically you can use a spreadsheet or a software accounting package. These have many advantages. You can record business transactions (including income and expenses, payments to workers, and stock and asset details) and automatically tally amounts. Accounting packages can also produce invoices, complete activity statements, and provide summaries and reports for GST and income tax purposes. Check their website for a list of approved business software. The Tax Office also offers a free bookkeeping software tool, *e-Record*.

The Tax Office encourages business to do as much of their tax tasks online as possible, for example, submitting quarterly activity statements. Check their website for details of the *Business Portal*.



## Tax basics for business operators

### Contacts for useful information and support

All small business enquiries	Business Victoria Visit the Victorian Consumer & Business Centre Ground Floor, 113 Exhibition Street, Melbourne VIC 3000 <b>13 22 15</b> TTY (telephone typewriter) Service (03) 9651 7596 For your nearest Victorian Business Centre call 13 22 15	business.vic.gov.au      business.vic.gov.au/vbc
Small business coaching, counselling and mentoring	Small Business Mentoring Service (visit the website to book an appointment, or call 13 22 15)	sbms.org.au/tips.htm
Licences and permits required by business from the state, federal and local governments, application forms	Business Licence Information Service (BLIS)	business.vic.gov.au/blis
Online <i>Checklist for new business</i> , free bookkeeping software <i>e-Record</i> , various booklets and seminars about tax and home-based business	Australian Taxation Office Casselden Place, 2 Lonsdale Street, Melbourne VIC 3000 The Tax Office also has offices in Cheltenham, Dandenong and Geelong. Check their website for contact details.	ato.gov.au
<ul style="list-style-type: none"> <li>- Australian Business Number (ABN)</li> <li>- Capital Gains Tax (CGT)</li> <li>- Goods and Services Tax (GST)</li> <li>- Business Activity Statement (BAS)</li> <li>- Pay As You Go withholding (PAYG)</li> <li>- Tax File Number (TFN)</li> <li>- Fringe Benefits Tax (FBT)</li> <li>- Superannuation (reporting)</li> <li>- Business portal</li> <li>- Registered software facility</li> <li>- Fuel tax credits</li> </ul>	Business tax enquiries 13 28 66	
<ul style="list-style-type: none"> <li>- Payroll Tax</li> <li>- Land Tax and Land Transfer Duty</li> </ul>	State Revenue Office GPO Box 1641, Melbourne VIC 3001	sro.vic.gov.au

#### For more information:

- call Business Victoria on **13 22 15**
- visit the Business Victoria website at **business.vic.gov.au**
- visit a Victorian Business Centre (VBC). For a list of VBC locations, go to **business.vic.gov.au/vbc**

**Disclaimer:** The information contained in this publication is provided for general guidance only. The State of Victoria does not make any representations or warranties (expressed or implied) as to the accuracy, currency or authenticity of the information. The State of Victoria, its employees and agents do not accept any liability to any person for the information or advice which is provided herein. Authorised by the Victorian Government, 113 Exhibition Street, Melbourne, 3000.

© 2009, Department of Innovation, Industry and Regional Development