

Understanding how taxation applies to your business is an important consideration in starting and managing a commercial enterprise. As a business, you also have certain reporting and record keeping requirements that must be met.

Taxes include:

- ❑ Federal taxes such as income tax, and Goods and Services Tax (GST).
- ❑ State taxes such as pay-roll tax, land tax, and stamp duties.

The Simplified Tax System

The Simplified Tax System (STS) is an optional way for small businesses to determine their taxable income and has two main elements:

- ❑ Simplified depreciation.
- ❑ Simplified trading stock rules.

Are you eligible?

You are eligible if:

- ❑ you are carrying on a business;
- ❑ your STS average turnover is less than \$1 million;
- ❑ you have depreciating assets that have been written down to less than \$3 million at the end of the income year.

Entrepreneurs' Tax Discount

If you are in the STS and have an annual group turnover of \$50,000 or less, then you will be eligible for the Entrepreneurs' Tax Discount of 25% on your income tax liability in respect of your business income. The discount phases out when turnover is greater than \$50,000 and ceases at STS group turnover of \$75,000.

The following information covers general taxation requirements and is not intended as an exhaustive list of taxation obligations.

Federal taxes

The Federal Government levies a range of taxes affecting small businesses including income tax, GST, and a number of other taxes including capital gains tax and fringe benefits tax. It also provides for a number of rebate schemes.

The Australian Taxation Office (ATO) administers Federal taxes that apply to all Australian States. Further information can be obtained by ringing 13 28 66 or accessing their website at www.ato.gov.au.

Income tax

As an individual sole trader, partner or company, you are required to register for a tax file number.

Individual sole traders do not need a separate tax file number and should use their individual tax file number. On the other hand, companies and partnerships need to register a separate tax file number. A partnership needs its own tax file number for lodging its annual income tax return, though tax is levied on the partners and not the partnership.

Pay as you go (PAYG)

The PAYG system applies to the process of a:

- taxpayer paying instalments towards their estimated income tax on liability on business and investment income (the PAYG instalments system); and
- third party (usually an employer) withholding amounts from certain payments (usually salary or wages of an employee) (the PAYG withholding system).

Under tax law, a person carrying on the business must keep records that record and explain all transactions. You are obliged to make PAYG instalment payments on your business or investment income during the year towards your estimated end of year income tax liability.

The amount of the instalment varies from business to business and is often dependent on your previous year's income. Instalments may be made on a monthly, quarterly or annual basis. Certain conditions apply for electing a quarterly or annual basis for payment.

Businesses also need to withhold amounts from certain payments under PAYG withholding. The most common types of payments you need to withhold amounts from are payments of salary or wages to employees. Another common payment requiring withholding is a payment to a supplier that fails to quote an Australian business number (ABN). If you are required to withhold from a payment, you must register for PAYG withholding.

PAYG instalments and withholding are reported and paid by completing your Business Activity Statement (BAS), if you are registered for GST, otherwise on your Instalment Activity Statement (IAS).

Every business needs to:

- ❑ report and pay tax;
- ❑ lodge an income tax return every year;
- ❑ keep business records for five years;
- ❑ account for business expenses it claims as deductions.;
- ❑ account for employees' income tax.

More Information

SOURCES OF INFORMATION

For publications, rulings and other general tax information for small business, visit www.ato.gov.au or phone 13 28 66.

Visit the NSW Department of State and Regional Development's small business website at www.smallbiz.nsw.gov.au

To apply for a tax file number (businesses) and ABN, and to register for GST and PAYG withholding, visit www.abr.gov.au

For superannuation enquiries, phone 13 10 20.

For more information on NSW State taxes, visit www.osr.nsw.gov.au or call:

1300 139 814 for general duties

1300 139 815 for pay-roll tax

1300 139 816 for land tax

1300 139 817 for hire of goods

WHO SHOULD I TALK TO?

Your local Business Advisory Service can offer you one on one advice on taxation matters.
Call 1300 650 058

Goods and Services Tax (GST)

GST is a broad-based tax of 10% on the sale of most goods, services and anything else consumed in Australia. GST is levied at all stages of production, from manufacturing to distribution to retail. Businesses must register for GST to be entitled to charge GST and claim input tax credits. Businesses with an annual turnover of \$75,000 or more (\$150,000 or more for non-profit organisations) must register for GST. Businesses that do not exceed the registration threshold may voluntarily register for GST.

While every registered business will charge GST, the final consumer ultimately bears the burden of the consumption tax. This occurs by the operation of an input tax credit system. A registered business will charge GST on its sales, however, any GST paid for purchases of the business will be credited back to the business. The business will, therefore, only pay the difference between the GST collected from sales and the GST paid on purchases.

Registered businesses are required to lodge an Activity Statement, either monthly, quarterly or annually, to report the amount of GST collected on sales as well as to claim their input tax credits. The difference between these two amounts is either payable by or refunded to the business. For more information on GST refer to the ATO website.

NSW State taxes

In New South Wales, the Office of State Revenue (OSR) administers State taxes. State taxation includes pay-roll tax, land tax and stamp duties. For more detailed information about NSW State taxes refer to the NSW Office of State Revenue website at www.osr.nsw.gov.au or call 1300 139 815.

Pay-roll tax

You are liable for pay-roll tax if the total wages paid in Australia by your business or group of related businesses during the pay-roll tax year exceeds \$600,000. If you are liable for pay-roll tax, the tax is levied at the rate of 6% on wages and other employee-related expenses above the \$600,000 threshold. The portion of this tax that relates to services performed wholly within New South Wales is paid to the NSW Office of State Revenue. If you have employees working in other States, you will have to pay tax to those States as well.

Land tax

In New South Wales, land tax is levied on the ownership of land. It is payable on the total land value of all the land you own in NSW if the value equals or exceeds the NSW land tax threshold. This threshold changes regularly. Visit www.osr.nsw.gov.au for the current land tax threshold and rates. Exempt land, such as land used for your primary residence or land used for primary production, is excluded from this calculation.

Stamp duties

Stamp duty is payable on certain transactions that may relate to the operation of your business. In general, you must pay stamp duty within three months of the transaction in which the duty arose. Stamp duty is payable, at different rates, on the following transactions:

- ❑ Acquisition of a business, including plant and equipment, goodwill and intellectual property.
- ❑ Acquisition of Business Premises.
- ❑ Lease of Business Premises.
- ❑ Mortgages.
- ❑ Hire of Goods.