

# Taxation

Understanding how taxation applies to your business is an important consideration in starting and managing a commercial enterprise. In Australia taxes are applied at both the Federal and State level. In New South Wales the Office of State Revenue (OSR) administers State taxes and the Australian Taxation Office (ATO) administers Federal taxes that apply to all Australian States. The following information covers general taxation requirements and is not intended as an exhaustive list of taxation obligations.

## NSW State Taxes

State taxation includes payroll 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](http://www.osr.nsw.gov.au), email [services@osr.nsw.gov.au](mailto:services@osr.nsw.gov.au), or call 1800 629 550.

**Payroll Tax:** In New South Wales payroll tax is levied on wages (and other employment-related payments) paid by an employer or a group of related businesses for services performed wholly within the State.

You are liable for payroll tax if the total wages paid in Australia during the payroll tax year exceeds \$600,000.

If you are liable for payroll tax, the tax was levied at the rate of 6% on wages and other employee-related expenses above the \$600,000 threshold paid during 1 July, 2002 and 30 June, 2003.

There are further special rules on who is liable for payroll tax for related businesses as well as employment agents. You should contact OSR for further information.

**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. Exempt land, such as land used for primary residence, is excluded from this calculation.

The land tax threshold for 2002 was \$220,000. Land tax is levied at the rate of 1.7% of the land value exceeding the land tax threshold plus \$100.

In calculating land tax there are different rules that apply, depending on which entity owns and land. It is advisable to talk to an OSR officer for more information.

**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.

For more information on stamp duty contact OSR.

## Federal Taxes

The Federal Government levies a range of taxes. Taxes affecting small businesses include Goods and Services Tax (GST) and Income Tax.

The ATO administers Federal taxes and further information can be obtained from their websites at [www.ato.gov.au](http://www.ato.gov.au) and [www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au). For information on income tax and general small business enquiries you can call 13 28 61 or for information on tax reform for small business call 13 24 78.

## Goods and Services Tax (GST)

GST is a transaction-based tax imposed on the consumption of goods and services. GST is levied on the sale of most goods, services and other business activities at the rate of 10%. 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

exceeding \$50,000 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 a Business Activity Statement, either monthly or quarterly 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 "Guide to the Goods and Services Tax for Small Business" available at the ATO Tax Reform website.

## **Income Tax**

As an individual sole trader, partner or company you are required to register for an income 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) Tax**

The PAYG system applies to the process of paying tax on the business' income and in deducting employees' income tax obligations from their pay.

Under tax law a person carrying on a business must keep records that record and explain all transactions.

You are obliged to make PAYG instalment payments for your business during the year as

instalments for your business' end of year income tax liability.

The amount of 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 employing people also need to account for PAYG withholding payments. This is similar to the previous PAYE system for withholding taxes from employees' wages and salaries as a credit for the employees' income tax liability. You must register for PAYG withholding to receive a Withholding Payer Number.

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).

Generally, every business needs to:

- have an Australian Business Number (ABN);
- account for employees' income tax;
- withhold from payments to other businesses that don't quote their ABN;
- account for business expenses it claims as deductions; and
- keep business records and report and pay tax.

The Federal Government also levies a range of other taxes, including capital gains tax and fringe benefits tax, and provides for a number of rebate schemes. To find more information on taxation obligations, contact the ATO.

## **About this Brochure**

This brochure and its contents were provided from the Department of State and Regional Development. [www.smallbiz.nsw.gov.au](http://www.smallbiz.nsw.gov.au)



First for Business