bO2 Corporate Essentials

Tax Smart Australia

Tax Essentials

Annual Taxation Summary Manual 2020

14th Edition

A simplified summary of the Australian taxation system

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Contents

Editor's Letter....

Welcome to the 14th edition of bO2 Corporate Essentials simplified summary of the Australia Taxation System, our Annual Taxation Summary Manual 2020.

Let's face it. Tax is confusing! But don't worry, we're here to help!

The year 2019 is marked by a number of significant events, many of which drastically changed our country's political landscape; we'll take a look at the basics of the Australian fiscal year and outline some of the most significant dates and deadlines during the tax year.

The purpose of this manual is to provide you with brief explanations of Taxation Issues, offer practical solutions and is arranged to make information easy to retrieve; designed especially for people who might never normally consider picking up reference material on tax minimisation or compliance.

This is neither a survival manual nor an encyclopaedia, rather is meant to be used as a ready reference for a layperson and professional alike. One of the greatest challenges today is technology, so to fulfil all the requirements of our readers our entire knowledge base is available to you 24/7; stored in one secure place and issued by a single accomplished publisher.

We aim to cut through the confusion and give you clear, sensible and reliable information from writers and experts that you can trust. We want it to be entertaining and informative, but above all useful.

Our online content is continually updated to stay current with the applicable legislation and advice. The updates are delivered to and are available on your PC or mobile device in one secure portal, so you don't have to traverse through multiple government or questionable websites.

Increasingly we are told, it's not about what you know; it is about knowing how to find out.

The tax law is constantly changing, with major legislation, court cases, and ATO rulings appearing frequently throughout the year. Many of these developments' present positive financial opportunities --ONLY if you know they exist, and you act on time. This is for readers who want to know how to optimise their position, and what they should be doing to help their business stay fit, healthy and compliant...

While we are all keenly aware of our tax obligations.... it's not always easy to know what you should and shouldn't be doing. We are bombarded by professionals giving us contradictory advice —so it's difficult to know what to believe and what to ignore. To help you stay up to speed... we include information that is necessary to make simple, accurate diagnoses and analysis and how to act on them.

In the future we hope to only grow, and we trust the work we do, inspires you to continue to join us for many years to come; We thrive on the enthusiasm of our members, contributors and readers, for which we are eternally grateful.

Thank you again for reading this letter. We hope you enjoy this 14th Edition and do let us know if there are any topics you'd like to see covered.

We look forward to hearing more from you in the future.

CHAPTER 1

The Australian Tax System

HISTORY

Throughout Australia's post-Federation period, income tax collections have been affected by the funding requirements of major World Wars and have certainly played a role in the thorny issue of Commonwealth/State relations.

Prior to Federation in 1901, income tax was first imposed by the States starting with South Australia in 1884, closely followed by Victoria and NSW in 1895.

The Federal Government introduced an income tax in 1916 largely to fund Australia's involvement in the First World War, but it was still the States that collected income taxes, both for themselves and on behalf of the Federal Government. In 1932, at the time of the Great Depression, the Lyons Federal Government briefly took over collection of income tax from the Lang Labor NSW Government. This constitutional crisis was soon resolved however, and the states retained responsibility for tax collection when a new consolidated act (the Income Tax Assessment Act 1936) was passed in 1936.

However, in 1942, at the height of World War II, the Commonwealth took over all income tax collection. This position remains unchanged to the present day. The States received annual grants from the Commonwealth to fund their revenue needs until 1 July 2000, when the Goods and Services Tax (GST) was introduced with proceeds going directly to the States, replacing the grants system.

Over the years there were many changes and insertions into ITAA 1936, rendering the act incomprehensible even too many professionals.

In the mid 1990's the Government decided to "simplify" matters by re-writing the complete act. This process commenced in 1997 with the introduction of the Income Tax Assessment Act 1997 (ITAA 1997).

Eventually ITAA 1997 will supersede the prior 1936 Act. In 1998 the Howard Government began a comprehensive programme of tax reform and suspended further activity on updating the 1997 Act. This will further delay completion of the 1997 Act. Until ITAA 1936 is completely re-written, tax professionals need to be familiar with both Acts.

Over the years numerous taxpayers have argued, some at High Court level, that collection of taxes is unconstitutional. These attempts have proved fruitless with Courts finding that the Commonwealth Government has full power to impose taxes provided it does not discriminate between the States and does not impose taxes on property belonging to a State.

The Australian Taxation Office – A brief history

When the ATO announced 100 years of service to the Australian community, they outlined some key dates which we have further augmented to include changes in taxation policy:

1910 – Federal Land Tax Branch established with 105 staff – 15,000 returns assessed in first year.

1915 – Income Tax Assessment Act introduced.

1917 – Female employment introduced due to men away at war.

1924 – State Tax Office branches amalgamated.

1930 – The sales tax introduced.

1933 – Flour tax introduced for one year, at a time when flour production exceeded sale price.

1944 – The Pay-As-You-Earn (PAYE) tax system introduced.

1952 – Federal Land Tax abolished.

1966 – The decimal currency introduced in Australia.

1975 – The first tax computer system-the Central Taxpayer System – commenced operation.

1978 – A surge in tax avoidance schemes (known as bottom-of-the-harbour) resulted from soaring inflation and threatened the integrity of the tax system.

1986 – Self-assessment introduced.

1987 – Electronic Lodgement System (ELS) for tax agent's trialled.

1988 – The first 'Tax Help' volunteer program was introduced to help people in need prepare their tax returns.

1997 – The Taxpayers' Charter introduced, setting out taxpayers' rights and standards of service.

1999 – e-tax launched resulting in 27,000 lodgements.

2000 – Introduction of 'The New Tax System' – the ATO delivered the largest range of tax reforms in its history including the introduction of the GST and Pay As You Go system as part of broader business tax reform.

2007 – Implementation of 'Better Super' – the biggest reform to superannuation ever.

2009 – A one-off tax bonus payment worth $7.7 billion was distributed to 8.7 million people. It was the largest payment ever made through the tax system and one of the most significant in Australia's history.

2010 – Over 2.3 million taxpayers lodged online using e-tax, which has evolved to include pre-filling, online help and automatic calculations. The number of people using e-tax continued to rise until it was replaced by myTax in 2016.

2014 – In the wake of Operation Wickenby, the amnesty for Australians with offshore, tax avoidance funds closed in December of that year. The ATO along with other G20 revenue authorities form pact to tackle base erosion and profit shifting (BEPS).

2015 – Unprecedented clashes between States and the Commonwealth Government over the allocation of GST revenue.

2016 – The Government's White Paper on tax reform abandoned in the heat of an Election year.

ATO AND TREASURY ROLES

The Treasury and the ATO are joint stewards of Australia's tax system and aspects of Australia's superannuation system. The ATO's role is to effectively manage and shape the tax and superannuation systems to support and fund services for Australians.

The ATO administers the tax law and key elements of the superannuation law and provides advice to Treasury to support the development of tax legislative measures. The Treasury is responsible for the design of the tax system and its components, and retirement income policy, in relation to economic efficiency, equity, income distribution, budgetary requirements and economic feasibility.

The ATO's working arrangements with Treasury are governed by a Tax and Superannuation Protocol, which encourages collaboration and early engagement, assurance on the quality of new tax and superannuation law, and the earliest possible identification and communication of issues.

HOW LAWS ARE MADE

The legislation administered by the ATO is created by parliament.

A proposed law, or amendment to an existing law, is introduced into parliament in the form of a Bill. A Bill must be passed in identical form by both houses of the parliament and then presented to the Governor-General for royal assent. If no date is specified, the law is enacted 28 days after the Bill receives royal assent.

Legislative instruments are made under the authority of an Act. An Act may delegate or give power to make laws in the form of regulations, orders, by-laws or other instruments to a particular person, or body of people.

LODGEMENT AND PAYMENT OF TAX

The Australian income tax year starts on 1 July and ends on 30 June each year.

Income taxes are determined from taxable income disclosed in income tax returns which are required to be prepared and lodged each year by individuals, trusts, partnerships, companies and other entities.

Each year required lodgement dates are gazetted; however, if a taxpayer is using a tax agent, extra time is normally granted in accordance with the tax agent's lodgement programme. Tax returns are lodged and assessed on an annual basis.

Individual taxpayers usually pay their taxes throughout the year under the Pay As You Go (PAYG) System which involves deductions from salaries and wages or quarterly instalment tax payments.

Most individual business taxpayers are required to meet their tax obligations quarterly.

Income tax rates were reduced when the Goods and Services Tax (GST) was introduced on 1 July 2000, and some taxes such as sales tax were abolished. However, some State taxes such as payroll tax still exist despite the Federal Government's intention that they be abolished. The GST initially turned into a cash windfall for the States.

Further obligations some taxpayers have are Business Activity Statements (BAS) and Instalment Activity Statements (IAS).

Partnerships and Trusts do not normally pay tax. The income flows down to individual partners or beneficiaries who are assessed on the amounts distributed to them.

To prevent double taxation of dividends, companies can frank their dividends (to reflect company tax paid) and these franking credits are refundable to taxpayers if the amount of tax paid is less than the amount of the franking credit.

Franked dividends paid to discretionary trusts flow through to nominated beneficiaries who are able to claim the franking credits.

Taxable income is calculated by adding all assessable income, then deducting all allowable deductions from the total. To determine the actual tax payable from the table below, multiply the taxable income by the marginal tax rate and deduct any tax offsets and credits.

2018/19- and 2019/20-Income Tax Rates For Resident Individuals

Taxable Income $	Tax Payable
0 – $18,200	0%
$18,201 – $37,000	19% over $18,200
$37,001 – $90,000	$3,572 + 32.5% over $37,000
$90,001 – $180,000	$20,797 + 37% over $90,000
$180,001 +	$54,097 + 45% over $180,000

**The above rates do not include the Medicare Levy of 2.0%.*

Note the temporary Budget Repair Levy ceased from 1 July 2017.

As part of the 2019 Federal Budget, the Morrison Government announced the following changes to income tax brackets:

2022-23 to 2023-24 Income Tax Rates For Resident Individuals

Taxable Income $	Tax Payable
0 – $18,200	0%
$18,201 – $37,000	19%
$37,001 – $90,000	32.5%
$90,001 – $180,000	37%
$180,001 +	45%

2024-25 onwards Income Tax Rates For Resident Individuals

Taxable Income $	Tax Payable
0 - $18,200	0%
$18,201 - $45,000	19%
$45,001 - $200,000	30%
$200,000 +	45%

**The above rates do not include the Medicare Levy of 2.0%.*

Payments to Working Holiday Makers rates for 2018/19 and 2019/20

Taxable Income $	Tax Payable
0 – $37,000	15%
$37,001 – $90,000	$5,550 + 32.5% over $37,000
$90,001 – $180,000	$22,775+ 37% over $90,000
$180,001 +	$56,075 + 45% over $180,000

*Note that Medicare Levy is not payable by Working Holiday Makers who are non-residents for tax purposes.

2018/2019 and 2019/20 Resident Minors – Unearned (Division 6AA) Income

The following rates apply to the income of certain minors (e.g. persons under 18 years of age on the last day of the income year who are not classed as being in a full-time occupation) that is not excepted income (e.g. employment income). Note that Medicare Levy may also be payable and resident minors are not entitled to the low-income tax offset in respect of 'unearned income.'

Division 6AA Income $	Tax Payable *
0 – $416	Nil
$417 – $1,307	66% of excess over $416
$1,308+	45% of the entire amount

*The above rates do not include the Medicare Levy of 2%

2018/2019 and 2019/20 Assessment – Resident Deceased Estate

The following rates apply where a trustee is assessed under S.99 ITAA 1936 in respect of a resident deceased estate. Where the date of death is less than 3 years before the end of the income year, the trustee is assessed as a resident individual, with no Medicare Levy.

Taxable Income $	Rate % *
Less than 3 years since death	
0 – $18,200	Nil
$18,201 - $37,000	19% of excess over $18,200
$37,001 - $90,000	$3,572 + 32.5% of excess over $37,000
$90,001 - $180,000	$20,797 +37% of excess over $90,000
$180,001+	$54,097 + 47% of excess over $180,000

3 Years or more since death	
0 - $416	Nil
$417 - $670	50% of excess over $416
$671 – $37,000	$127.30 +19% excess over $670
$37,001 - $90,000	$7,030 + 32.5% of excess over $37,000
$90,001 - $180,000	$24,225 +37% of excess over $90,000
$180,000+	$57,555 + 45% of excess over $180,000