

PART A

OVERVIEW

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- ▶ Why Is It Necessary To Study Tax?
 - Business Implications
 - Personal Implications

Why tax?

- Revenue raising
 - Social and political needs
 - Economic functions
 - Redistribution function
- Use of each of these can increase the complexity of the tax system

Features of a tax system

- Simplicity and certainty
 - Efficiency and flexibility
 - Neutrality
 - Equity: horizontal and vertical
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- Use of each of these can increase the complexity of the tax system

TAXING BODIES

Who taxes e in Australia?

Answer: Only the Commonwealth (began collecting e tax in 1915)

But note:

States collected their own e tax until 1942

TAXING BODIES

- Reason why Commonwealth sole e tax collector:
- Based on war time necessity and exclusive armed forces power given to the Commonwealth
- Commonwealth instigated a scheme which effectively drove the States out of e tax.
- The scheme made it politically difficult for the States to continue with e tax – it did not make it illegal!

AUSTRALIAN TAXES

- Various taxes imposed by 3 levels of government

AUSTRALIAN TAXES

1. COMMONWEALTH
2. Income Tax, CGT, FBT, Import Duties
3. STATES (stamp duties)
4. LOCAL GOVERNMENT (rates)
5. 2 and 3 do not form part of this course

Who taxes what?

Commonwealth:

e;

CGT

FBT

GST

imports

States:

Land

Gambling

Transaction duties

Licence fees

Payroll

Local:

Municipal rates

SOURCES OF TAX LAW

1. STATUTE

2. The Tax Assessment Act 1936/1997

3. Primary source

4. COURTS

5. High Court and Federal Court

6. Primary source

7. TAXATION OFFICE

8. Rulings – Secondary source

9. Importance of Rulings

SOURCES OF LAW

- Importance of understanding sources
- Applying tax law involves understanding:
 - I. statutory interpretation and
 - II. the precedent system within the common law

NOTE Being able to understanding the relationship between the operation of precedent and the application of legislation is critical to a successful completion of this unit.

THE LEGISLATION

1. e Tax Assessment Act 1936
2. e Tax Assessment Act 1997
3. Two Acts because of:
4. Tax Law Improvement Programme

RATING ACTS

- The rates of tax are to be found in a different Act to the one that imposes the tax
- Split Between Assessment and Ratings Acts is as a result of ss. 53 & 55 of the Australian Constitution. (For information only not examinable)

IMPORTANT CONCEPTS

- *Pay As You Go (PAYG) System*
 - Purpose

Pay As You Go

PAYG instalments

means
paying your own tax

replaces
provisional tax and company and
superannuation fund system

PAYG withholding

means
paying amounts you
withhold from others

replaces
PAYE and other withholding
systems. (The PPS and RPS systems
will be abolished.)

one set of due dates
one form for reporting and payment

IMPORTANT CONCEPTS

(A) The withholding system

- 1) Payers of certain payments are to **withhold** an amount and forward it to the Commissioner.
- 2) Payments include: salary/wages; remuneration to a company director; an eligible termination payment; a payment from an investment where the payee does not quote a tax file number.
- 3) The amount is determined by the Commissioner's withholding schedules.
- 4) Due dates for payment to the ATO of the withheld amount depends on the size of amounts withheld.

NON RESIDENT WITHHOLDING

Payment to <u>non-resident</u>	Rate
Dividends (unfranked)	30% (may be less [usually 15%] if resident of tax treaty country)
Interest	10% (exemptions may apply to UK and US lenders)
Royalties	30% (may be less [usually 10%] if resident of tax treaty country)

IMPORTANT CONCEPTS

(B) The instalment system

The basic principle is that most businesses and individuals with business and investment e will pay their tax in quarterly instalments.

Withheld amounts will also be forwarded to the ATO on this basis.

PAYG withheld amounts and PAYG instalments are reported on the taxpayer's Business Activity Statement (if registered for GST) or Instalment Activity Statement (if not registered for GST).

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