PART A

OVERVIEW

OVERVIEW

- 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
- Use of each of these can increase the complexity of the tax system

TAXING BODIES

<u>Who taxes e in Australia?</u> <u>Answer: Only the Commonwealth (began</u> <u>collecting e tax in 1915)</u>

<u>But note:</u> <u>States collected their own e tax until</u> <u>1942</u>

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. e 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. e 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

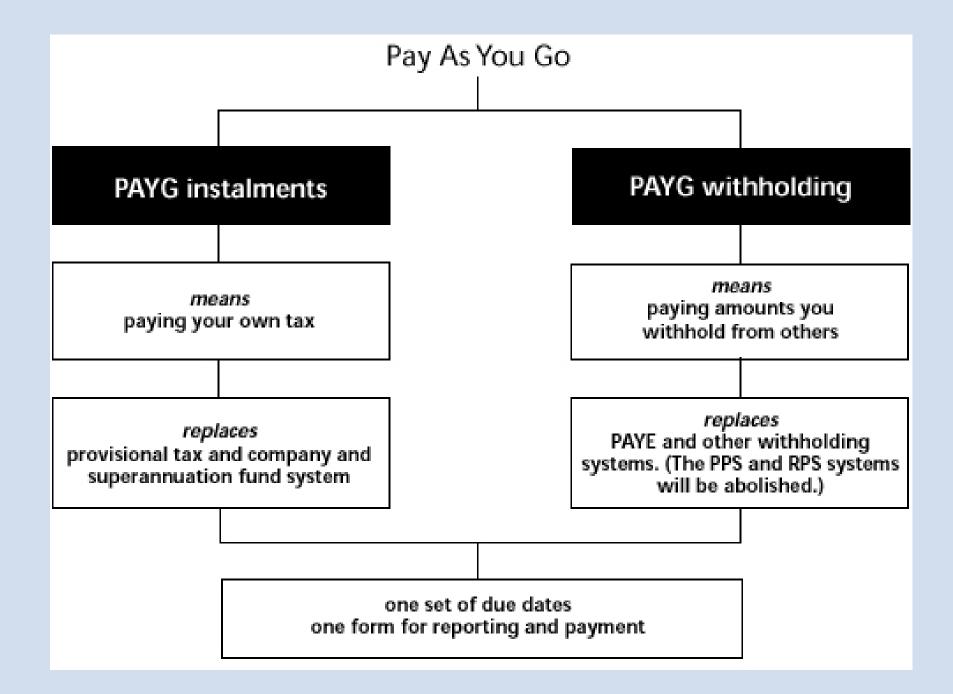
- 1. e Tax Assessment Act 1936
- 2. e Tax Assessment Act 1997
- 3. Two Acts because of:
- 4. Tax Law Improvement Programme

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 <u>ss. 53 & 55 of the Australian</u> <u>Constitution</u>. (For information only not examinable)

IMPORTANT CONCEPTS

Pay As You Go (PAYG) System Purpose



IMPORTANT CONCEPTS

(A) <u>The withholding system</u>

- 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-</u> <u>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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