

Topic 1 The Taxation System in Australia

1. **What's 'tax'?** (study notes p.5/ ppt p.3)
2. **Different types of Federal taxes** (study notes p.6)
3. **Power to tax** (textbook p.64-65)
 - **Section 51 (ii)**: The Commonwealth Parliament shall have power to make laws with respect to taxation, but not so as to discriminate between States or parts of States
 - **Section 55**: Taxation laws shall deal only with the imposition of taxation
 - Principles of a 'good' tax system
4. **Who administers the Federal tax system?** (ppt p.7)
 - ATO (Australian Taxation Office) – 5 principles
 - Taxpayers obligations
5. **Types of taxpayers** (study notes p.10-11/ppt p.10)
 - Individuals (sole proprietor)
 - Companies
 - Partnerships
 - Income from employment – salary, wages, bonus, tips, allowances
 - Income from Property – rent, interest, dividends
 - Income from business – sales, consulting income, services
6. **Co-ownership of Property** (study notes p.12-13)
 - Joint Tenants
 - Tenants in common
7. **Small Business Entitles** (SBEs) (study notes p.14/ ppt p.19/ textbook p.80)
 - Turnover < \$2 million → CGT concessions
 - Turnover < \$10 million → SBE accelerated asset write offs
 - Turnover < \$5 million → Unincorporated Small Business Income Tax Offset
8. **Foreign residents**: Paying tax twice? (study notes p.17)
9. **The income tax equation** (study notes p.20/ textbook p.74-78)
 - $Income Tax = (Taxable Income \times Tax Rate) - Tax Offsets$
 - $Taxable Income = Assessable Income - Deductions$
 - $Assessable Income = Ordinary Income + Statutory Income$
 - $Deductions = General deductions + Specific deductions$
10. **PAYG** (study notes p.22)
11. **Tax Offsets** (ppt p.37/ textbook p.501/study notes p.30)
 - Refundable: dividend imputation credits (franking credits), private health insurance rebate
 - Non-refundable: Medicare Levy, Medicare Levy Surcharge, HELP repayments

Topic 2 Residence and source, tax accounting

1. **Residence of Australia – individuals** s 6(1) ITAA36 (textbook p.86/study notes p.4)
 - T1 = Primary test | According to ordinary concepts TR98/17 (ppt p.7/textbook p.87/ case study p.2/4)
 - T2 = 1st Statutory test | Domicile Test IT2650 (ppt p.11/textbook p.92)
 - T3 = 2nd Statutory Test | 183 Day Rule Test (ppt p.14/ textbook p.95)
 - T4 = 3rd Statutory Test | Superannuation Test (ppt p.15/ textbook p.96)
2. **Temporary resident** ITAA97 subdivision 768-R (ppt p.18/ textbook p.97/ study notes p.6)
 - Hold a temporary visa granted under the *Migration Act 1958*
 - Are not an Australian resident within the meaning of the *Social Security Act 1991*
 - Do not have a spouse who is an Australian resident within the meaning of the *Social Security Act 1991*
3. **Double Tax agreements** (study notes p.7)
4. **Migration Act** (ppt p.18)
5. **Foreign residents | source** (textbook p.101/ ppt p.20)
 - Four main categories:
 - Income from sale of goods (textbook p.103)
 - Income from sale of property (textbook p.104)
 - Income from the provision of services (textbook p.104)
 - Passive income (dividends, royalties, interest) (textbook p.106)
 - Withholding tax: (ppt p.21)
 - Interest: withholding rate = 10%
 - Royalties: withholding rate = 30%
 - Dividends: withholding rate = 30%
6. **Tax accounting** (textbook p.516/ study notes p.8)
 - Cash v accruals accounting (textbook p.519)
 - Expenses (textbook p.526)

Income derived	Expenses incurred
Employment → Received → Cash basis	Completely subjected or definitively committed to the liability
Passive income → Received → Cash basis	Does not include a loss or expenditure which is no more than impending, threatened, or expected
Business income:	Only deductible under s 8-1 if incurred in that year
• Apply business and accounting principles, two options	Don't need to pay the debt/expense to claim it
• Cash basis → Small business with turnover < \$10 million, small professional practices → Derive when receive	Provisions, not a fixed liability, not deductible
• Accruals basis → Sell on credit, large businesses → Derive when invoice is issued	Prepayments, definitively committed, but special rules apply
Constructive receipt, s 6-5(4) → Still your income if you gave an instruction → Received by another	

- Prepayments (textbook p.531/case study p.5/ study notes p.11)
 - 12 month rule: The definition of an SBE for purposes of **section 82KZM ITAA36** is found in **section 328-110 ITAA97** and requires the SBE:
 - ✓ to be carrying on a business
 - ✓ and have a turnover of less than \$10 million during income year

Topic 3 Income (Lecture 3)

1. Ordinary income s 6-5(1)

- Income according to ordinary concepts (ppt L3 p.4/textbook p.115)
 - *Scott v Commissioner of Taxation* (NSW)
 - Individuals → salary, dividends, rent, sales, trust income, partnership income
 - Business → turnover, dividends, interest, professional services fees
 - Receipts specifically dealt with in legislation → statutory income, dividends
 - Uncertainty → prizes, voluntary payments received, compensation, sell capital assets → Case law
- Is a receipt capital or revenue in nature? (ppt L3 p.5/textbook p.116)
 - Capital, x ordinary income, *Eisner v Macomber*

2. Pre-requisite (ppt L3 p.8)

(1) Pre-requisite 1: Cash or Cash convertible (textbook p.117/ppt L3 p.9)

- *Payne v FCT* (textbook p.143): free flights from frequent flyer points through work travel → not ordinary income