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# Topic 1: Introductory Tax Law

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## Direct and Indirect Taxation Revenue

- Direct: wages, salaries, payrolls + profits
- Indirect: GST, customs duties, property tax

## Principles of Statutory Interpretation

### Traditional approach (literal rule):

- tax only where there are clear words to do so → take the literal meaning of words and resolve ambiguities in favour of the taxpayer

### Golden Rule:

- apply literal rule unless some absurdity arises then change, add or remove a word to fix it

### Mischief Rule:

- where meaning is unclear ascertain the meaning by observing the previous state of the law and what mischief or problem that the legislation was attempting to remedy

## Other Judicial Rules

### 'ejusdem generis' (of the same kind or nature)

- if a law lists forms of transport such as buses, trains and ubers, it can be assumed trams are also covered by the law

### 'noscitur a sociis' (meaning can be gathered from context)

- where an ambiguous word is contained in a list of general words it takes the meaning that makes sense in the context of the surrounding words

- the act should be read as a whole
- words are assumed to be used consistently throughout the act

## Important Legislation Dictionaries

- Income Tax Assessment Act 1997 (ITAA 1997) s995-1
- Income Tax Assessment Act 1936 (ITAA 1936) s6(1)
- New Tax System (Goods and services Tax) Act 1999 (GSTA 1999) s195-1
  - for ordinary meanings the macquarie dictionary is preferred
- ISAA Acts Interpretation Act

there is a move to more purposive approaches now to discourage tax avoidance

Assessible Topics for the Exam

1. international tax
2. assessable income
3. non-assessable
4. deductions
5. tax accounting
6. tax entities

## Tax Loss

- if deductions exceed assessable income you have no taxable income
- you may also have a deductible 'tax loss' to carry forward to the following year



# Topic 2: Taxation Policy

## Who should pay?

1. equality: considerability to pay and equal burden
2. convenience: time and manner of payment should be convenient to the taxpayer
3. certainty: amount due, method of payment and deadline should be made clear
4. efficiency: cost of administering taxes should be minimal

## Horizontal Equity

- equal treatment for people in similar circumstances
- based on ability to pay, a mix of income and wealth

## Vertical Equity

- higher income earners should not only pay more tax but pay a higher rate of tax  
e.g. 30% of \$100,000 vs 25% of \$40,000

## Tax Expenditures Analysis

A tax expenditure refers to tax exemptions and concessions

- the costs of a tax exemption are estimated by the departure they cause from the predefined tax base
- the benefits include encouraging savings, investment, risk-taking, entrepreneurial activity etc., however since they tend to benefit the rich disproportionately it offers little economic benefit and only serves to complicate the tax system and contribute to higher administrative costs

### Regressive Tax

taking a proportionally larger amount from low-income groups  
ie. indirect taxes

## Optimal Tax Theory

'the one which maximises social welfare and in which the choice between equity and efficiency best reflects society's attitudes towards these competing goals'

- supports the use of tax concessions

## Tax Eligible Entities

- an individual (S9-1)
- a company incorporated or unincorporated but not including a partnership (S9-1)
- a corporate limited partnership (S94J)
- a trustee but only in respect to some kinds of income of the trust (SS 98, 99, 99A, 102)
- a trustee of a corporate unit trust (S102K)
- a trustee of a public trading trust (S102S)

## The Income Tax Equation

1. tax must be paid for each income year
2. income tax is calculated according to your taxable income for the income year  
↳ the income year = financial year unless:
  - for a company it is the previous financial year
  - if you have an accounting period different from the financial year then income year = accounting period
3. income tax = (taxable income x tax rate) - tax offsets

## Calculating Taxable Income

Assessable income - deductions = taxable income

↓	↓
ordinary income	general deductions
+	+
statutory income	specific deductions

### Ordinary income

- income from personal exertion
- income from business
- income from property
- profits from isolated transactions
- miscellaneous receipts

## Final Adjustments to Tax Bill

- add 2% medicare levy if applicable
- add HELP assessment debt if applicable
- deduct any PAYG withholding tax or instalments made
- deduct any TFN withholding tax
- refund due or balance owing to the ATO

### General Deductions

- expenses/losses incurred in producing your assessable income e.g. uniform

see Div 9 →  
starting at S9-1

TAA36 S2515 →