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Please click to select an option.

Taxation Statistics 1996-97

a summary of taxation, superannuation and child support statistics

Taxation Statistics 1996-97

ISBN 0 642 30742 3

Preface

Welcome to the latest edition of *Taxation Statistics*, a publication which provides an overview of the statistics available from the Tax Office.

Taxation Statistics 1996–97 presents a profile of the income and taxation status of Australian individuals, companies, funds, partnerships and trusts using information from income tax return forms. It also presents information about the superannuation system as well as a profile of the Child Support Agency and its clients.

The first chapter of the publication presents an overview of the Australian tax system. It outlines the various taxes that the Tax Office collects and discusses the services that the Tax Office provides for taxpayers. The second chapter presents an overview of taxation in the 1996–97 financial year, outlining some of the main issues, challenges and achievements. The remaining chapters present statistics and analysis of specific market segments.

Once again, a CD-ROM is included with the publication. The CD-ROM contains an electronic copy of the publication and a series of detailed tables. The CD-ROM tables are presented in both PDF and Excel.

The publication and detailed tables are also available on ATO*assist* — the Tax Office's Internet site. It can be found at www.ato.gov.au.

I hope you enjoy the publication.

Michael Carmody
Commissioner of Taxation

Symbols and usages

The following symbol used in this publication means:

n.a. not applicable

Where figures have been rounded, discrepancies may occur between the sums of the component items and totals.

Enquiries about these statistics

General enquiries about the content and interpretation of statistics in this publication, or about the availability of related data, should be directed to:

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Australian Taxation Office
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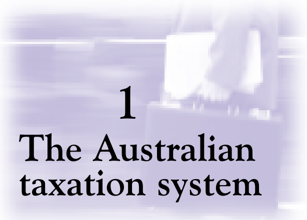
Email: taxstats@ato.gov.au

Contents



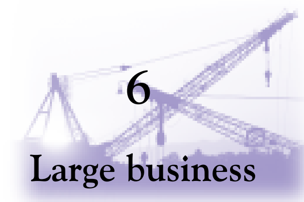
1 The Australian taxation system

2 Overview of 1996–97

3 Individuals

4 Small business

5 Industry benchmarks



6 Large business

Taxation Statistics 1996-97

Client population
Industry
Company income
Company expenses
Net tax
Company balance dates
Return form compilation
Detailed tables

Client population
Fund income
Deductions
Net tax
Excluded funds
Life assurance companies
Return form compilation
Detailed tables

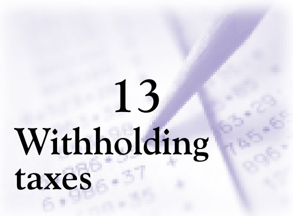
What is the superannuation guarantee?
Why superannuation coverage is compulsory
Superannuation guarantee revenue received
Superannuation guarantee vouchers
Superannuation contribution surcharge
Superannuation holding accounts reserve
Member protection
Lost members register
Reasonable benefit limits
Government initiatives

What are partnerships ?
Client population
Industry
Partnership income and expenses
What are trusts ?
Client population
Industry
The growth of trusts and companies
Trust income and expenses
Trust loss provisions
Return form compilation
Detailed tables

Client population
Revenue raised
Benefits
Industry
Employee contributions
Tax agent analysis
FBT initiatives
Return form compilation
Detailed tables

Tax payable on capital gains
Source of capital gains
Detailed tables

Taxation Statistics 1996-97



13 Withholding taxes

Revenue raised
Non-resident interest withholding tax
Non-resident royalty withholding tax
Non-resident dividend withholding tax
Resident withholding tax for TFN amounts deducted
Detailed tables

15 PAYE

Revenue raised
Payers
Industry
New clients
Personal services income project
Detailed tables

17 Child Support

Eligible population
CSA caseload
Assessment type
Transfers of child support
Profile of CSA clients
Children

19 CD-ROM index

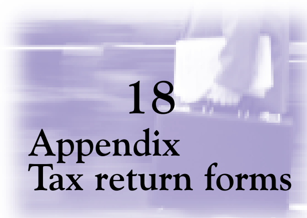
Exit

14 Sales tax

Sales tax collected
Trade groups
Consumer demand
Sales tax initiatives
Detailed tables

16 PPS & RPS

PPS collections
Industry
New clients
What is RPS?
Detailed tables



18 Appendix Tax return forms

Individuals
Companies
Funds
Partnerships
Trusts
Fringe benefits tax

The Australian Taxation System

The Australian taxation system

The Australian Taxation Office
Structure of the Tax Office
Taxation Reform Task Force
Type of taxes
Client services

The Australian taxation system

Australian law requires that we pay taxes and other charges at federal, state, territory and local government levels in order to fund a range of government programs and community services.

Australia's income tax system is based on the principle of 'self-assessment'. Prior to self- assessment, all tax returns were individually reviewed before a notice of assessment was issued. This was a very labour intensive process with reviews relying completely on the information contained in the return forms.

The system of self-assessment addresses these inefficiencies based on voluntary compliance. Tax return forms are generally accepted at face value and are not individually reviewed. To support this approach, education and information services are being provided, enhanced post-assessment audit processes have been introduced and systematic, computerised income checks for interest and certain other sources of income have been strengthened.

All taxpayers are allocated a tax file number (TFN). The TFN is used to detect non-disclosure of income and for 'matching' of income details in tax returns with information provided from other sources. The quoting of TFNs is used for both salary and wage income, and investment income. Failure to quote a TFN may result in tax being deducted from the payment at the top marginal tax rate.

The Australian Taxation Office

The main functions of the Australian Taxation Office are to administer taxation legislation and the higher education contribution scheme (HECS), and to support the provision of retirement income. The Tax Office's client base encompasses approximately 11.5 million individuals, businesses and public sector agencies.

The Tax Office also works with other departments on policy matters relating to taxation, child support, superannuation and HECS. When policy is determined by government, the Tax Office instructs Parliamentary Counsel in the preparation of necessary legislation. The main areas of legislation administered by the Tax Office are income tax, fringe benefits tax, sales tax, higher education funding, medicare levy, superannuation guarantee and small superannuation accounts.

Structure of the Tax Office

The Tax Office is structured around groups of clients into divisions known as business lines and service lines. Each business line is responsible for a major market segment, such as individuals, small business and large business. The service lines provide internal support duties such as information technology, marketing and communication, and human resource management.

Business lines

The **Individuals Non-Business** (INB) business line is responsible for establishing client liabilities (other than for the very wealthy), securing lodgment of income tax returns and payment of taxes from non-complying clients. INB also has many major corporate functions and roles including tax agent liaison, provision of a general enquiries service via telephone and branch office enquiry counters, returns processing, income tax refunds, tax file numbers and income matching.

The **Small Business Income** (SBI) business line is responsible for administering the income tax system for all business taxpayers with annual gross turnovers of less than $10 million. It is also responsible for fringe benefits tax matters for all taxpayers. SBI's purpose is to ensure that small business participants and taxpayers with fringe benefits tax responsibilities are complying with the tax laws at minimum cost to their businesses.

The **Large Business and International** (LB&I) business line is responsible for the income tax affairs of clients with turnovers greater than $10 million and associated high wealth individuals. It also has general responsibility for international issues. LB&I's work is divided into seven industry segments: banking and finance, insurance and superannuation, mining and petroleum, manufacturing, media and communication, property and construction, and services.

The **Withholding and Indirect Taxes** (WHT) business line is responsible for managing the pay-as-you-earn and prescribed payments collection systems. It is also responsible for administering sales tax, wool tax, non-resident interest, dividend and royalty tax, resident and mining withholding taxes, and the tobacco charge.

The **Superannuation group** is responsible for administering the superannuation guarantee, reasonable benefits limits, superannuation holding accounts reserve system and the superannuation surcharge on contributions from higher income earners. It is also responsible for relevant Tax Office superannuation policy and improving the Tax Office's client focus in superannuation matters through the superannuation community education campaign.

The **Child Support Agency** (CSA) was established within the Tax Office to administer the child support scheme. Under the scheme, maintenance payable to spouses and children under court orders or maintenance agreements, may be deducted from an employee's salary or wages. The CSA also assesses the amount of child support payable and collects these amounts. In October 1998 it was announced that the CSA would move to the Department of Family and Community Services.

Service lines

Information Technology Services (ITS) provides the Tax Office with a wide range of computing products and services. Staff plan, design, acquire, install and operate the Tax Office's information technology facilities throughout Australia.

Financial Services (FS) has overall responsibility for the effectiveness and efficiency of financial management and accountability systems in the Tax Office. FS is also responsible for revenue forecasting and analysis, policy costings, taxation data extraction, forecasting model development and the *Taxation Statistics* publication.

Corporate Services (CS) is responsible for advising Tax Office corporate management on corporate strategy, policy and compliance with corporate obligations. It also provides support services to assist Tax Office business and service lines meet their objectives.

Law Design and Development (LDD) teams have been established in the business lines. These teams assist the business lines to clarify and develop taxation law, make the law less costly to comply with and communicate the law to others through rulings, publications, advice and litigation. They are also responsible for implementing the government's legislative program. The Law Integrity Team (LIT) has been established to ensure the quality and integrity of the law across all business lines.

The **Office of the Commissioners** (OCOM) comprises the SES Support Unit, Special Projects, Internal Assurance Branch, TaxPayers' Charter and the Problem Resolution Service. These areas report directly to the Commissioners.

The **Office of the Chief Tax Counsel** (OCTC) provides advice on matters in relation to the administration of taxation laws. It works with other business lines to arrive at the 'Tax Office view' on questions of tax law, policy and litigation. It has responsibility for interpretative decisions and enhancing accuracy and consistency in private rulings. The functions of OCTC are carried out by a range of officers including tax technical system advisers and freedom of information/ privacy officers, as well as members of the Tax Council Network.

Taxation Reform Task Force

The Taxation Reform Task Force was set up after the Prime Minister's announcement about the government's plan for reform and modernisation of the Australian tax system. The task force advises the government on options for reform.

Types of taxes

The Tax Office is responsible for collecting a wide variety of taxes.

Income tax

Income tax makes up the greatest component of the federal revenue base.

While some types of income are exempt from tax, and certain categories of people or entities need not pay tax, in general residents of Australia are liable for tax upon their world-wide income and others are liable upon their income with an Australian source.

In calculating income tax liability for any year, a person must first calculate his/her 'assessable income'. This comprises salary and wages, interest payments etc., and can also comprise amounts other than those generally understood as being income. Some types of net capital gains are included under this extended meaning. The next step is to deduct allowable deductions in order to calculate the 'taxable income'. The taxation rates imposed by Parliament are applied to this figure to identify a gross tax figure. Finally, the amount of any credits and rebates are subtracted in order to determine the tax liability. This basic system can apply to all types of entities — individuals, partners, companies, superannuation funds and trustees — although the particular form can vary significantly.

A different system of income tax calculation applies to non-residents in receipt of dividends, interest or royalties from an Australian source. In these circumstances international **withholding taxes** apply. The gross amounts of income are subjected to a relatively low tax rate, and this constitutes a first and final liability for the taxpayer in respect of that income.

The **pay-as-you-earn** (PAYE) collection system applies to employees. Employers are required to deduct a prescribed proportion of their employees' salary or wages each pay period and forward it to the Tax Office. At the end of the financial year, the amounts paid are applied against the employee's tax liability.

The **prescribed payments system** (PPS) applies across a wide range of industries to people who contract their services. Contractors must complete a payee declaration form, and the payer is then responsible for deducting tax and forwarding it to the Tax Office.

The **reportable payments system** (RPS) applies to the fishing, clothing, smash repair and fruit and vegetable industries. Wholesale buyers from these industries are required to report details of any payments to the Tax Office at the end of the financial year.

The **provisional tax system** applies to individuals' business and investment income. An estimate of the anticipated income is made during the course of the financial year and an amount equal to the tax that would be payable upon that amount is paid to the Tax Office. Payment adjustments to reflect the actual amount earned are made when the return is lodged after the end of the year.

The **company tax system** and the **superannuation fund tax system** work on the same principles as provisional tax. Companies and superannuation funds are required to pay their tax in either four instalments, or in one single payment, depending on their likely tax for the year. Likely tax is based either on the tax paid in the previous year or on an estimate lodged with the Tax Office by the taxpayer.

Fringe benefits tax

Fringe benefits tax (FBT) is levied upon employers and based upon the value of certain non-cash benefits provided to their employees or associates of their employees. It is complementary to the income tax system but varies markedly as the benefit recipient does not bear the tax liability.

Sales tax

Sales tax is imposed on goods imported into Australia and goods which are manufactured and go into consumption in Australia. The tax is imposed on the wholesale selling price of the goods.

Other taxes and charges

The Tax Office is also responsible for a number of other taxes and charges including the tobacco charge and the petroleum resource rent tax.

Client services

The Tax Office has a range of client service initiatives in place to ensure that people can meet their tax obligations at the lowest possible cost.

TaxPack

For the past eight years, the Tax Office has issued *TaxPack*, an instruction book which provides taxpayers with information to enable them to complete their income tax returns. The aim of *TaxPack* is to assist taxpayers to fulfil their tax obligations, while informing them of their rights and responsibilities.

TaxPack is designed to provide relevant tax information for salary and wage earners, small business people, pensioners, students and people with investment income. It also reminds taxpayers of the role of tax agents and professional tax advisers. The Tax Office reviews *TaxPack* annually to make sure the information it contains is current and that taxpayers are given a high level of assistance when completing their tax returns. Approximately 26% of individuals used *TaxPack* to prepare their 1996–97 income tax return. Research shows that 90% of these people found it easy to use.

ATO*assist*

ATO*assist* is the Tax Office's Internet site. It provides access to the Tax Office's information holdings which include rulings and determinations, current Tax Office publications, draft legislation and discussion papers, work being done on Tax Office projects and general information on tax matters.

There are also a number of electronic forms and a range of tools to help people calculate capital gains tax, tax instalment deductions and HECS. Taxpayers can download most of these forms and calculation tools for personal use. The address of the site is www.ato.gov.au. This edition of *Taxation Statistics* is on ATO*assist.*

Fax from Tax

The Fax from Tax service was introduced in 1997 to provide quick and easy access to tax information for small business. This service gives people access to tax information 24 hours a day, seven days a week. A wide range of information sheets are available. These include:

- How does superannuation work?
- General information on HECS
- PAYE — for employers
- Sales tax — small business exemption
- PPS — how it affects the professional building and construction industry
- Family tax assistance summary.

To use this service, phone 13 28 60.

Business Entry Point

The Business Entry Point (BEP) is an Internet-based initiative developed in conjunction with the Department of Workplace and Small Business Relations, the Australian Securities Commission and AusIndustry. It enables businesses to register for sales tax, pay-as-you-earn, the prescribed payments system and business tax file numbers over the Internet.

The service is designed to streamline communication between businesses and all levels of government, and reduce a business' compliance costs and paperwork. It will improve existing client service by providing another avenue for access, but will not supersede existing methods of registration.

Phase one of the project was introduced in July 1998. You can find the BEP at www.business.gov.au or phone the hotline on 13 28 46.

TaxPayers' Charter

The TaxPayers' Charter is a service charter that sets out taxpayers' rights and obligations, as well as the Tax Office's service standards. The charter was introduced on 1 July 1997 and was actively promoted to the community through a television and press advertising campaign and a range of information brochures and booklets.

Problem Resolution Service

In conjunction with the TaxPayers' Charter, the Tax Office launched the Problem Resolution Service (PRS) for those taxpayers who are not satisfied with the service provided to them. The role of the PRS is to provide an independent entry point to the Tax Office for people who have a complaint. As well as solving the individual's problem, the PRS will see if there is a systemic problem that needs to be fixed, to ensure it doesn't happen again.

Tax Help

Tax Help is a free and confidential service for people on a low income. Volunteers are trained by the Tax Office to explain people's tax obligations and assist them in preparing their tax return. Tax Help centres are located throughout the metropolitan areas of each state and in many country areas.

Tax Expenditure Statement

Each year the Tax Office assists the Department of the Treasury in preparing the Taxation Expenditure Statement (TES). The TES provides details on the financial benefits that individuals and businesses derive from various kinds of tax concessions. These concessions are usually delivered by tax exemptions, tax deductions, tax rebates or reduced tax rates. They lower the tax burden by either reducing or delaying the collection of taxation revenue. Copies of the publication may be purchased through AusInfo bookshops or accessed via the Treasury website (www.treasury.gov.au).

Tax Evasion Hotline

On 1 July 1998, a call centre to handle tax evasion information provided by the community became operational. The centre is equipped to receive information by telephone, fax, mail and email systems. The tax evasion hotline number is freecall 1800 060 062.

Other services

The Tax Office produces a variety of publications and brochures to help people understand their tax obligations. These range from explanations of a specific tax to summaries explaining the tax issues to consider when starting a business. Many of these publications are available by phoning or visiting the Tax Office. They are also available on ATO*assist*.

The Tax Office also has a national enquiries phone service. Enquiries staff take more than 15,000 calls per day between 1 July and 31 October, and about 10,000 per day for the rest of the year, on a range of taxation issues. To use this service phone 13 28 61. The Tax Office also has enquiry counters in many branches for those people who would like to come in and talk to somebody face-to-face. These services are available between 8:30am and 4:45pm, Monday to Friday.

A wider range of information on general Tax Office administration and arrangements can be found in the Commissioner of Taxation's *Annual Report*. This is published in October each year, and can be found in AusInfo bookshops, a range of libraries and on ATO*assist*.


Overview
of 1996–97

Overview of 1996-97

Taxation Statistics coverage

Number of taxpayers
Industry
Net tax
Cost of compliance
Olympics 2000

Overview of 1996–97

In 1996–97, total Tax Office collections exceeded Budget estimates by 0.5% and continued an extended period of strong growth in collections. This was achieved in an environment characterised by:

- increasing internationalisation of business activities, with growing recognition of the potential impact of electronic commerce and the Internet;
- extensive legislative activity, often involving responses to evidence of aggressive tax planning;
- increasing complaints about the complexity of our tax, superannuation and child support systems, allied with an increased focus on varying perceptions of the fairness of those systems; and
- significant public sector and workplace reform, including increasing pressure to demonstrate competitive efficiency in public sector operations.

During the year the Tax Office also focused on key compliance issues where the community has concern about whether people are meeting their obligation to contribute their fair share under the law — issues such as the cash economy; international transactions including transfer pricing; tax planning; and the activities of some high wealth individuals who have an apparent gap between levels of wealth and tax paid.

The Tax Office also identified emerging issues, with ground breaking work on the potential impact of the Internet and electronic commerce.

Complaints to the Ombudsman, as revealed in her 1996–97 *Annual Report*, fell for both tax and child support operations. This was against the general trend that saw an overall increase in complaints of 19%.

Complementing the Child SupportAgency clients' charter, the TaxPayers' Charter came into effect on 1 July 1997. The TaxPayers' Charter is another step in gaining the community's confidence through a commitment to more transparent and accountable ways of operating.

Taxation Statistics coverage

This publication contains statistics based on the tax returns lodged for individuals, companies, funds, partnerships and trusts for the 1996–97 income year. It also contains statistics for fringe benefits tax, sales tax, pay-as-you-earn (PAYE), prescribed payments system (PPS) and other withholding tax collections during the 1997–98 financial year.

Number of taxpayers

In 1996–97 there were approximately 11.5 million taxpayers. Most of these (86%) were individuals. This was followed by companies and partnerships (5% each).

While individuals accounted for 85% of all taxpayers, they were only liable for 74% of net tax. In contrast, companies accounted for only 5% of all taxpayers, yet were liable for 22% of net tax.

Table 2.1: Type of taxpayer by business line, 1996-97

Type of taxpayer	INB	SBI	LB&I	Total
	no.	no.	no.	no.
Individuals	7 310 318	2 549 729	1 016	9 861 063
Companies	n.a.	530 542	28 978	559 520
Funds	n.a.	142 680	542	143 222
Partnerships	50 439	493 435	242	544 116
Trusts	167 508	258 221	1 702	427 431
Total	**7 528 265**	**3 974 607**	**32 480**	**11 535 352**

The individuals non-business (INB) business line had 7.5 million clients, the small business income (SBI) business line had 4 million clients and the large business and international (LB&I) business line had slightly more than 32,000 clients.

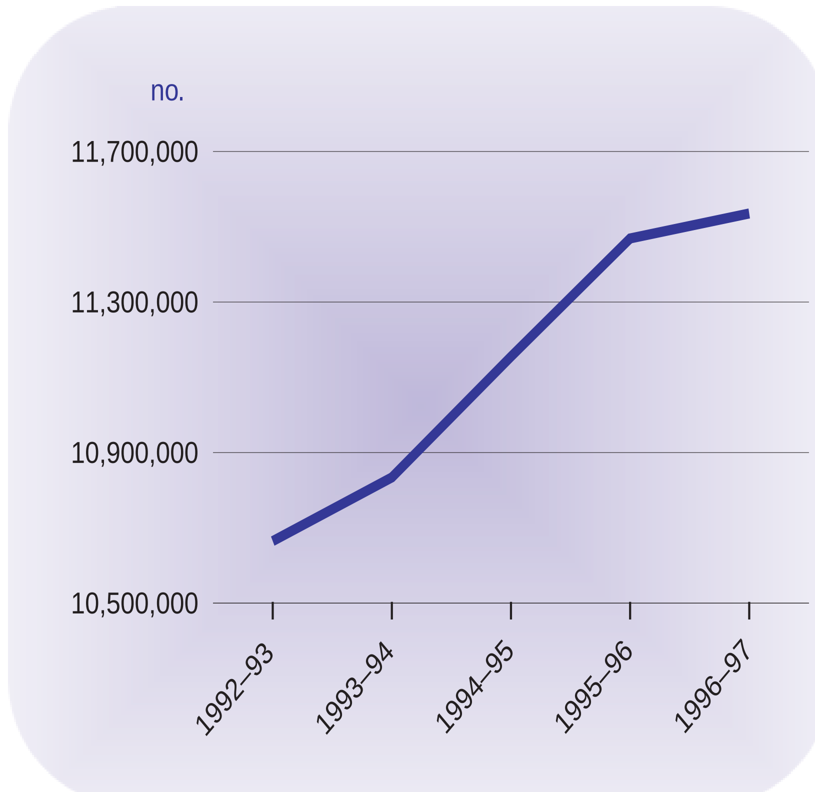
There has been a large increase in the number of LB&I clients during the last year. This is mainly due to a change in the way clients have been categorised. In previous years clients have been identified on the basis of total business income — those earning $10 million or more were classified as LB&I clients and those earning less than $10 million were classified as SBI clients. However, all subsidiaries of large businesses, regardless of their total income, are actually LB&I clients. These clients have been identified and moved into their correct category. As a result, the number of LB&I clients has increased by almost 5,000 since 1995–96.

The total number of taxpayers has increased by 8% during the past five years, from 10.7 million in 1992–93 to 11.5 million in 1996–97. The greatest rate of increase occurred for funds (69%). There was also a 40% increase in the number of trusts and a 31% increase in the number of companies.

Table 2.2: Number of taxpayers

Type of taxpayer	1992–93	1996–97	Increase
	no.	no.	%
Individuals	9 272 971	9 861 063	6.3
Companies	426 800	559 520	31.1
Funds	84 790	143 222	68.9
Partnerships	534 281	544 116	1.8
Trusts	305 954	427 431	39.7
Total	**10 624 796**	**11 535 352**	**8.6**

Figure 2.1: Number of taxpayers



Industry

In 1996–97, of those taxpayers whose industry was known, the majority (61%) were salary and wage earners. A further 16% were in the property industry and 6% were in the finance, insurance, real estate and business services industry.

The industry profile of individual taxpayers showed a similar trend. Most (71%) were salary and wage earners and a further 17% were in the property industry. The primary production industry accounted for another 4% of individual taxpayers.

The main industry groups were quite different among companies, partnerships and trusts. Half of all companies were in the finance, insurance, real estate and business industry. A further 9% each were in the construction and retail trade industries.

Among partnerships, the most common industry was primary production, accounting for 27% of all taxpayers. This was followed by construction (16%) and retail trade (14%).

Among trusts, the most common industry was property (42%), followed by finance, insurance, real estate and business services (27%) and retail trade (7%).

In 1996–97 most INB clients, for whom industry was known, were salary and wage earners (79%). The greatest proportion of SBI clients were in the finance, insurance, real estate and business services industry (22%) and the primary production industry (21%). The greatest proportion of LB&I clients were in the finance, insurance, real estate and business services industry (51%).

In 1996–97, the industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, we are unable to do time series analyses for industry because the industry groups are not comparable.

Table 2.3: Taxpayers[1] by entity and industry

Industry	Individuals	Companies	Partnerships	Trusts	Total
	no.	no.	no.	no.	no.
Salary and wages	6 039 953	0	0	0	6 039 953
Property	1 415 916	0	48 993	154 097	1 619 006
Finance, insurance, real estate & business services	135 849	258 492	52 575	99 687	546 603
Primary production	318 843	14 766	140 216	18 941	492 766
Construction	169 506	48 292	80 750	18 146	316 694
Retail trade	72 099	45 461	71 734	24 500	213 794
Manufacturing	57 011	40 261	29 859	11 660	138 791
Transport & storage	42 060	19 833	26 135	6 619	94 647
Personal & other services	55 787	13 093	18 456	5 994	93 330
Health & community services	44 583	20 233	5 709	6 740	77 265
Wholesale trade	14 953	28 009	13 051	8 230	64 243
Accommodation, cafes & restaurants	9 016	11 045	15 399	6 964	42 424
Cultural & recreational services	42 382	10 248	8 302	2 810	63 742
Communication services	14 123	2 425	4 092	841	21 481
Mining	2 707	3 454	1 053	605	7 819
Government, administration & defence	261	99	38	32	430
Education	13 625	1 946	1 850	530	17 951
Electricity, gas & water	627	626	377	151	1 781
Not stated	1 411 762	41 237	25 527	60 884	1 539 410
Total	**9 861 063**	**559 520**	**544 116**	**427 431**	**11 392 130**

1. Excludes funds.

Table 2.4: Taxpayers[1] by business line and industry

Industry	INB	SBI	LB&I	Total
	no.	no.	no.	no.
Salary and wages	5 852 840	187 106	7	6 039 953
Property	1 591 146	27 686	174	1 619 006
Finance, insurance, real estate & business services	1 343	530 698	14 562	546 603
Primary production	876	491 356	534	492 766
Construction	1 366	314 434	894	316 694
Retail trade	666	211 286	1 842	213 794
Manufacturing	552	134 947	3 292	138 791
Transport & storage	313	93 432	902	94 647
Personal & other services	367	92 684	279	93 330
Health & community services	245	76 748	272	77 265
Wholesale trade	176	60 887	3 180	64 243
Accommodation, cafes & restaurants	61	41 685	678	42 424
Cultural & recreational services	432	62 830	480	63 742
Communication services	76	21 284	121	21 481
Mining	31	6 458	1 330	7 819
Government, administration & defence	6	421	3	430
Education	74	17 840	37	17 951
Electricity, gas & water	3	1 652	126	1 781
Not stated	77 692	1 458 493	3 225	1 539 410
Total	**7 528 265**	**3 831 927**	**31 938**	**11 392 130**

1. Excludes funds.

Net tax

For the 1996–97 income year, $80.9 billion in net tax was payable by individuals, companies and funds. Most of this ($60.3 billion) was payable by individuals. A further $18.2 billion was payable by companies.

In 1996–97, 7.4 million individual taxpayers received tax refunds. These totalled $8.6 billion, an average of $1,162 each. At the same time, 1.8 million individual taxpayers had a tax debt. These debts totalled $3.5 billion, or $1,959 each.

The main source of revenue is PAYE tax, accounting for $66.2 billion in the 1997–98 financial year. This was followed by company tax ($19.4 billion). PAYE has been the main source of revenue for the past ten years.

Figure 2.2: Net tax[1]

1. Refers to net tax payable in each income year by individuals, companies and funds. It excludes data for financial year collections, such as sales tax and fringe benefits tax.

Figure 2.3: PAYE revenue

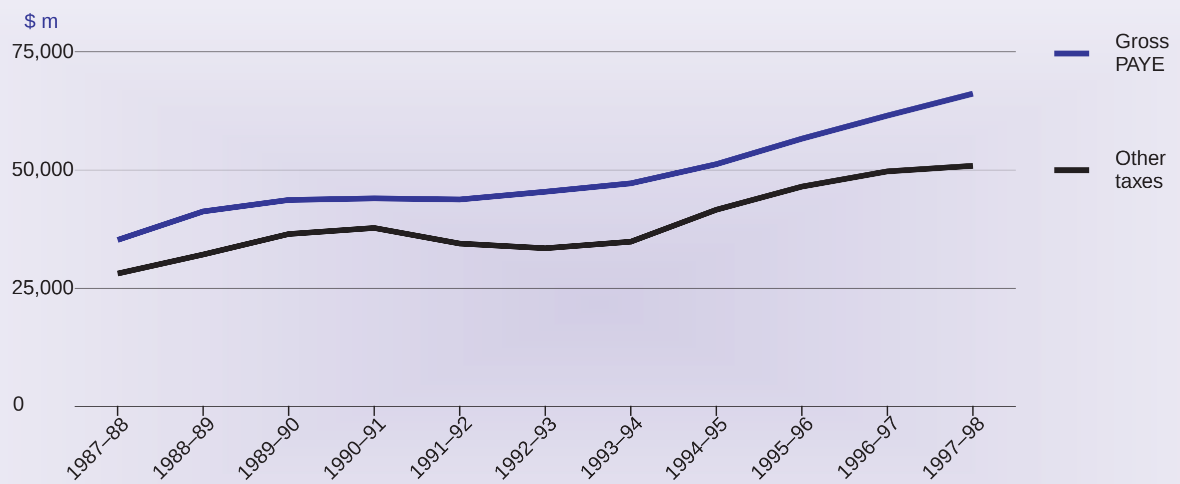
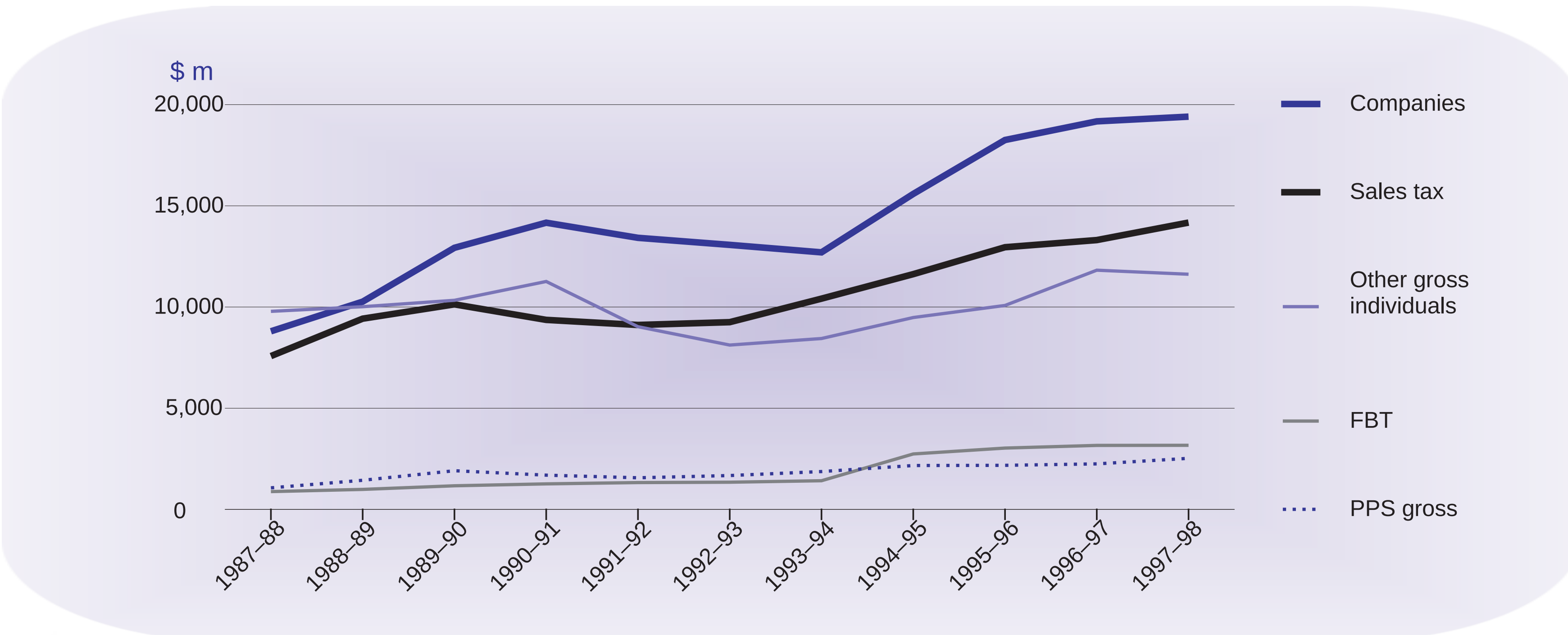


Figure 2.4: Other sources of revenue[1]



1. Excludes PAYE

Cost of compliance

In 1997, the Tax Office engaged independent consultants from the University of New South Wales to survey and report on the cost of taxpayer compliance.

The survey, which related to the 1994–95 income year, found the average net compliance cost for a small business taxpayer (a business with an annual turnover of less than $10 million) was about $2,000.

In contrast, it was found large business taxpayers gained an average of $30,000. This gain stemmed from the cash flow created when there were delays in paying income tax or in remitting tax revenue (such as PAYE) collected on behalf of the government.

The Tax Office will continue to monitor the cost of compliance and, in particular, how that cost affects small business. To assist in this process, the Tax Office has arranged to have the survey/reporting process repeated annually. The next report will evaluate the 1997–98 income year and be available in September 1999.

Olympics 2000

The Tax Office has also established an Olympics team. It works to ensure maximum compliance in relation to the Olympics 2000 by providing knowledge and assistance to the parties associated with them. Basically the strategy involves taking steps, before the event, to maximise compliance and minimise the opportunity for non-compliance. The Tax Office is also developing and maintaining an understanding of the business of Olympic clients to enable it to make better informed decisions.

Individuals

Individuals

Individuals

Within the Tax Office, individual taxpayers may be clients of the individuals non-business (INB), small business income (SBI) or large business and international (LB&I) business lines. If gross income is equal to or greater than $10 million, then the individual is a client of the LB&I business line. If gross income is less than $10 million and there is business income, then the individual is a client of the SBI business line. However, the majority of individual taxpayers (74%) are clients of the INB business line.

INB clients are those taxpayers who receive most of their income from salary and wages, Australian government pensions and benefits, or investments, and who do not have any business income or deductions. An individual is considered to have no business income if they do not complete any of the following items in their income tax returns:

- distribution from primary production;
- deductions from primary production distribution;
- a share of PPS or RPS credits;
- net business income — primary production;
- net business income — non-primary production;
- PPS or RPS credits;
- tax withheld on withdrawal of income equalisation deposit;
- an income equalisation deposit or withdrawal;
- an industry code;
- an indication they have multiple businesses, have ceased business or have commenced business;
- a business postcode; or
- business or professional declaration items.

The data in this chapter refer to all individuals, including those with business income. However, it does not include any analysis of their business income or deductions. This analysis can be found in the ‘Small business’ and ‘Large business’ chapters of this publication.

The statistics contained in this chapter have been compiled from individual tax return forms for the 1996–97 income year, that were processed in the period 1 July 1997 to 30 June 1998.

Client population

In 1996–97, 9.9 million individual taxpayers lodged returns, representing 54% of the total Australian population. While the population of Australia increases each year, the proportion of the population lodging returns has remained relatively stable.

Taxpayers are concentrated in the 30–49 years age group, in terms of total number of people, income received, and net tax paid. This age group forms 44% of the total taxpayer population. Males are over represented in the taxpayer population (54%) when compared to the total population (50%). This reflects the levels of participation in the labour force by men and women. In June 1997, 73% of men and 53% of women aged 15 and over were in the labour force. (Source: *ABS The Labour Force*, June 1997, Cat No 6203.0)

More than three-quarters of taxpayers have tax instalments deducted from their pay on a regular basis. The proportion of total income that is taxable has stayed constant at around 95% for each of the last five years, while the total income returned has increased by 4–7% each year.

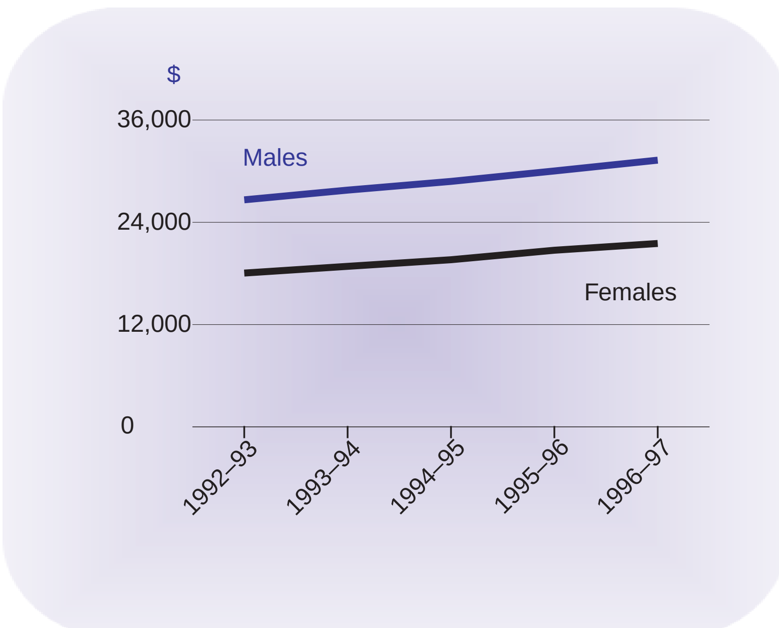
Of those lodging returns, the proportion of individuals liable to pay tax has increased from 81% in 1993–94 to 84% in 1996–97.

Income

In 1996–97, the 9.9 million individual taxpayers had a total income of $277.5 billion and a taxable income of $263.8 billion. After taking into consideration the amount of income, deductions, rebates, credits and levies, 8.2 million individuals were required to pay tax. This group was liable for $60.3 billion in net tax representing 74% of net tax for the year.

The average taxable income for individual taxpayers has increased from $22,744 in 1992–93 to $26,757 in 1996–97. Men have a much higher average taxable income than women ($31,291 compared to $21,517), reflecting different employment patterns and participation in the labour force. The gap between men's and women's earnings has been increasing over time.

Figure 3.1: Average taxable income



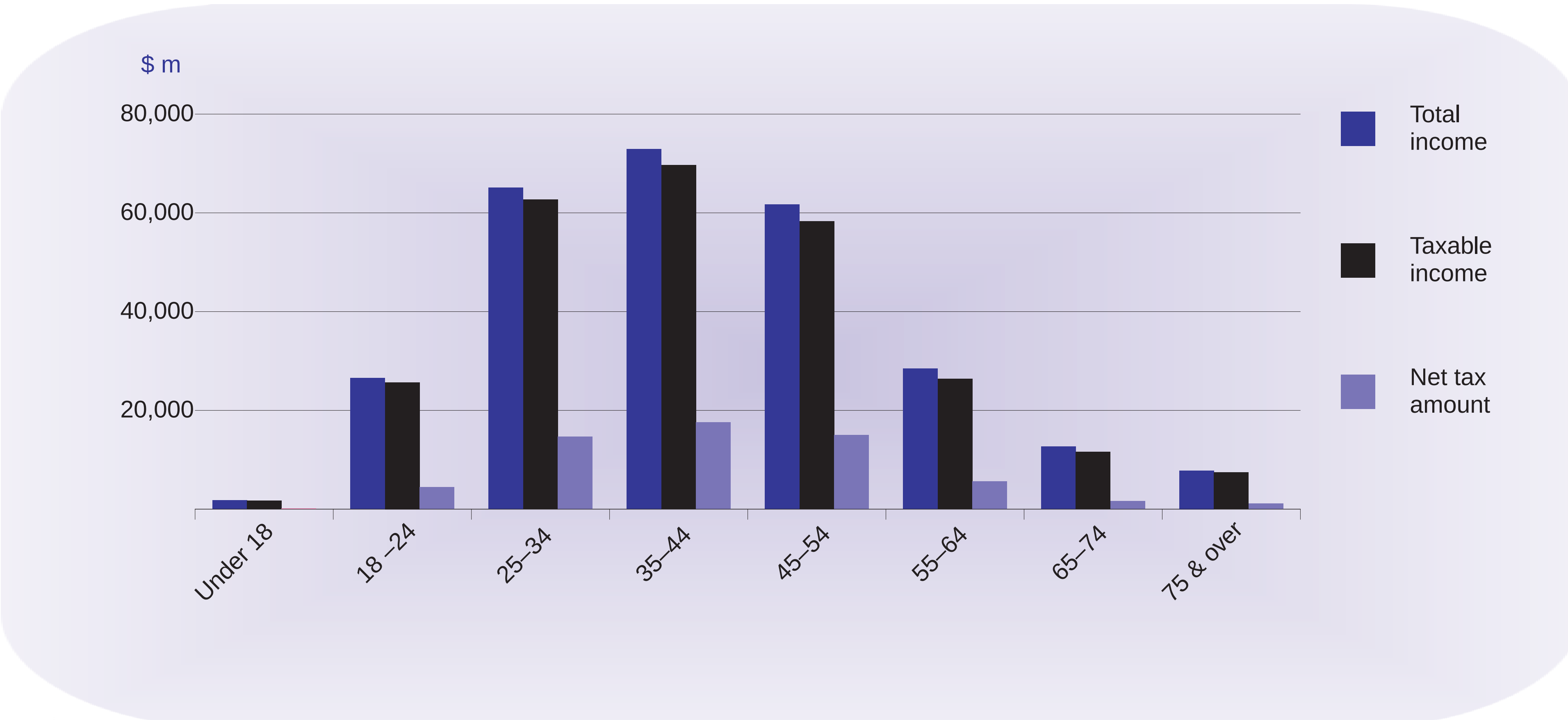
Individual's incomes come from a wide variety of sources. The most common source is salary and wages. In 1996–97, the majority (78%) of individuals had income from salary and wages. This income accounted for 74% of all individuals' income. While a large proportion of the population had interest income (58%), it represented only 3% of total income.

Table 3.2: Sources of income

Source of income	Taxpayers		Amount	
	no.	%	$ m	%
Salary & wages	7 567 221	77.6	206 328	74.4
Partnerships & trusts	1 567 682	16.1	18 647	6.7
Net business income	606 543	6.2	7 534	2.7
Gross interest	5 621 471	57.6	7 220	2.6
Other pensions	420 095	4.3	6 073	2.2
Gross dividends	1 376 816	14.1	4 860	1.8
Eligible termination payments	496 815	5.1	4 842	1.7
Australian government pensions	809 774	8.3	4 540	1.6
Benefits	1 296 657	13.3	4 498	1.6
Allowances	1 966 508	20.2	3 495	1.3
Capital gains	670 857	6.9	3 083	1.1
Imputation credit	1 287 486	13.2	2 571	0.9
Lump sum payments	287 137	2.9	1 764	0.6
Foreign employment/pension income	130 381	1.3	715	0.3
Other foreign income	323 442	3.3	362	0.1
Life assurance bonuses	34 561	0.4	144	0.1
Net rent	1 153 232	11.8	65	0.0
Income equalisation withdrawal	1 522	0.0	-27	0.0
Attributed foreign income	4 277	0.0	16	0.0
Income equalisation deposit	4 086	0.0	89	0.0
Other	160 566	1.6	673	0.2
Total[1]	**9 752 532**	**100.0**	**277 494**	**100.0**

1. Components may not add to totals as taxpayers may be in more than one category.

Figure 3.2: Income by age.



Some sources of income are ‘one-off’ events, for example capital gains and eligible termination payments. While the number of people who return this type of income may remain stable over time, the underlying populations may change significantly from year to year.

The source and level of income varies according to the age and employment status of the taxpayer. For example, among retirees the main sources of income are government and other pensions and annuities, and eligible termination payments. As a result, the amount of

total income, taxable income and net tax are low among older age groups.

Level of income also varies widely according to geographic location. People of similar incomes tend to live in the same general areas. In 1996–97, the area with the highest average taxable income was postcode 2027 in Sydney. This includes suburbs such as Edgecliff and Point Piper, to the east of the city. This was followed by postcode 3142 in Melbourne, which refers to the suburbs of Hawksburn, Heyington and Toorak.

The following series of tables outlines the areas with the ten highest and lowest taxable incomes in each state and territory in Australia.

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Deductions

Deductions are subtracted from total income. The result is taxable income to which the tax rates are applied. Deductions are generally categorised as either work related deductions, which are directly related to the gain or production of assessable income, or other deductions such as gifts and tax related expenses.

Table 3.3: Deductions claimed

Type of deduction	Taxpayers		Amount	
	'000	%	$ m	%
Work related expenses	6 017	76.4	6 300	46.2
Prior year losses	113	1.4	3 239	23.7
Investment	1 870	23.7	1 044	7.7
Undeducted purchase price of pension or annuity	212	2.7	893	6.5
Non-employer sponsored superannuation	203	2.6	818	6.0
Cost of managing tax affairs	4 275	54.3	553	4.1
Gifts	3 150	40.0	541	4.0
Film industry	2	0.0	30	0.2
Other	166	2.1	227	1.7
Total[1]	**7 879**	**100.0**	**13 644**	**100.0**

1. Components may not add to totals as taxpayers may be in more than one category.

Deductions are very widespread with 80% of the total taxpayer population claiming a deduction of some type. These deductions were valued at $13.6 billion in 1996–97.

Work related expenses (WRE) are the most common type of deduction claimed. In 1996–97, six million people made WRE deductions. These deductions were valued at $6.3 billion.

The value of WRE deductions has risen steadily since 1992–93, with a 2% increase during the past year. Motor vehicles are the most common type of WRE deduction, accounting for about one-third of all WRE deductions in 1996–97. Motor vehicle claims were valued at an average of $1,472.

More than three-quarters (77%) of taxpayers claiming work related deductions have agent prepared returns. The average deduction claimed for agent prepared returns was 46% higher than self prepared returns in 1996–97. This may reflect the more complex tax affairs of people using tax agents. There were also a large number of claims which fell below the $300 substantiation threshold.

Self-education expenses

In 1997, the Tax Office revised its interpretation of the self-education provisions and, starting in February 1998, wrote to taxpayers who had made claims during the last four years to inform them that they may be entitled to a further deduction. At 30 June 1998, 392,602 amendment requests had been received. Refunds and interest payable are expected to reach $200 million.

Rebates and credits

The purpose of rebates is to provide tax relief. Some rebates depend on the nature and level of income (e.g. pensioner, beneficiary, low income). Others depend on characteristics such as maintaining a dependant or living in a remote area. Rebates reduce the amount of tax payable on taxable income. In contrast, deductions are subtracted from a person's income to work out their taxable income. Credits are for tax already paid by the taxpayer or by a trustee on behalf of the taxpayer. Rebates can only reduce the amount of tax owing to zero. The excess does not become a refund. However credits, other than imputation credits and foreign tax credits, can result in a refund.

The tax liability of the majority of taxpayers is affected in some way by rebates. In 1996–97, 6.6 million people received rebates and credits totalling $7.6 billion. The most common type of rebate was the low income rebate. 3.9 million people claimed the low income rebate in 1996–97, accounting for 59% of all taxpayers. This was followed by the imputation credit claimed by 1.6 million people and the pensioner rebate claimed by 730,000 people.

Although the low income rebate was the most common type of rebate, it represented only 7% of the total value of all rebates. The imputation credit had the highest total value of $3.3 billion, accounting for 44% of the total value of rebates. This was followed by the eligible termination payments rebate with $1.3 billion, accounting for 18% of the total value of rebates.

Table 3.4 Rebates and credits

Rebates/credits	Taxpayers		Amount	
	'000	%	$ m	%
Imputation credit	1 552	23.5	3 302	43.5
Eligible termination payments	464	7.0	1 343	17.7
Pensions	730	11.1	657	8.7
Low income	3 896	59.1	505	6.7
Spouse	451	6.8	412	5.4
Superannuation	529	8.0	348	4.6
Sole parent	275	4.2	288	3.8
Zone	495	7.5	196	2.6
Averaging	123	1.9	140	1.8
Beneficiary	318	4.8	108	1.4
Medical expenses	252	3.8	108	1.4
Foreign tax credit	284	4.3	72	1.0
Life assurance bonus	34	0.5	48	0.6
Other[1]	62	0.9	55	0.7
Total[2]	**6 591**	**100.0**	**7 584**	**100.0**

1. Includes section 100(2) credits and low income aged persons rebate.

2. Components may not add to totals as taxpayers may be in more than one category.

General tax rates applicable to Australian residents for the 1996-97 income year

Not less than	Not more than	Tax payable on total taxable income
$0	$5 400	Nil
$5 401	$20 700	Nil + 20c for each $1 over $5 400
$20 701	$38 000	$3 060 + 34c for each $1 over $20 700
$38 001	$50 000	$8 942 + 43c for each $1 over $38 000
$50 001		$14 102 + 47c for each $1 over $50 000

Resident individuals are also liable to pay a Medicare levy of 1.5% of taxable income. In 1996–97, resident taxpayers were also liable to pay an additional 0.2% gun levy. Family tax assistance, which increases a person's tax-free threshold, applies to certain resident taxpayers with dependent children.

Family tax initiative

The family tax initiative (FTI) was announced in the 1996 Budget and became effective on 1 January 1997. The FTI provides financial assistance to low and middle income families with dependent children. Depending on income, FTI is available as either family tax assistance (FTA), administered by the Tax Office, or family tax payment (FTP) administered by the Department of Family and Community Services.

FTA increases the tax-free threshold for certain taxpayers with dependent children, which reduces their tax liability. FTP are fortnightly payments equal in value to the tax savings from FTA, and are available to certain low-income earners as an alternative to FTA.

In 1996–97, 706,000 individuals claimed family tax assistance. These claims were valued at $789 million. During the year the Tax Office identified approximately 31,000 taxpayers who may not have received full benefits, because their taxable income was too low to take full advantage of the initiative through the tax system. To remedy this, the Tax Office and Centrelink wrote to these taxpayers recommending they consider applying to Centrelink for family tax payments.

Provisional tax

Provisional tax is an estimate of tax payable on non-salary or wage income. Taxpayers who derive non-salary or wage income in excess of $999 may be liable to pay provisional tax. This income could be from investments, business, distributions from a trust, or any other source not covered by the pay-as-you-earn (PAYE) system. People who have a significant shortfall in their tax instalment deductions from salary and wages may also pay provisional tax. Provisional tax applies only to individual income and some income assessed to a trustee. It does not apply to company income.

Provisional tax is generally calculated by applying current year tax rates and the Medicare levy to the previous year's taxable income, which is first increased by a certain percentage known as the provisional tax uplift factor. The uplift factor is set by law to take into account the average likely increase in income for the year. The estimate of provisional tax calculated is then reduced by any rebates and credits to which the taxpayer is entitled.

The taxpayer pays provisional tax based on this estimate, either in four instalments throughout the year, or in a single lump sum. Provisional tax is payable in a single lump sum where:

- the prior year's provisional tax was $8,000 or below;
- the taxpayer's taxable income includes primary production income; or
- the taxpayer has an occupation where income is irregular or seasonal such as authors, artists and sportspeople.

Table 3.5: Provisional tax by taxable income

Taxable income	Provisional tax debit		Provisional tax credit	
	no.	$ m	no.	$ m
Non-taxable	318	1.7	85 698	139.1
$5,400 & under	14 890	13.3	10 952	17.8
$5,401–$20,700	553 019	824.9	447 159	866.9
$20,701–$38,000	529 426	1 898.0	460 078	1 602.6
$38,001–$50,000	193 038	1 082.6	165 763	867.1
$50,001 & over	260 398	4 501.0	224 649	3 372.9
Total taxable	1 550 771	8 319.8	1 308 601	6 727.3
Total	**1 551 089**	**8 321.5**	**1 394 299**	**6 866.3**

The amount of provisional tax paid during the year is offset against the actual tax liability when it is finally determined.

In 1996–97, almost 1.6 million taxpayers were notified of a provisional debit. The provisional taxpayer population varies quite dramatically from year to year. Each year, about one-third of taxpayers notified of a liability to pay provisional tax have had no such liability in the previous year. The proportion of taxpayers leaving the provisional tax system is similarly high, resulting in the total population being relatively stable in size over a number of years.

When a person has paid provisional tax, it is credited against the tax payable on their notice of assessment. This is known as a provisional tax credit. In 1996–97, around 1.4 million taxpayers received a provisional tax credit.

Among those people whose industry was known, the largest proportion of people in the provisional tax system were in the property industry. In 1996–97, 29% of people with a provisional tax debit and 27% of people with a provisional tax credit were in the property industry. This was followed by the primary production industry, accounting for 11% of those with a provisional tax debit and a provisional tax credit.

Tabe 3.6: Provisional tax by industry[1]

Industry	Provisional tax debit		Provisional tax credit	
	no.	$ m	no.	$ m
Salary & wage earners	21 639	176.1	70 891	208.9
Property	434 265	1 372.2	370 786	1 193.2
Primary production	161 712	1 015.0	147 460	850.6
Mining	664	7.5	518	5.1
Manufacturing	18 469	75.8	14 208	54.4
Electricity, gas & water	180	0.8	148	0.7
Construction	34 810	122.5	26 567	82.7
Wholesale trade	5 545	32.3	4 598	25.8
Retail trade	27 429	165.3	23 746	138.9
Accommodation, cafes & restaurants	3 513	17.4	2 911	13.9
Transport & storage	16 939	65.9	13 649	50.5
Communication	3 235	10.5	2 596	7.9
Finance, insurance, real estate & business services	58 580	575.4	47 134	433.6
Government administration & defence	109	2.0	84	1.5
Education	5 695	20.2	4 864	17.2
Health & community services	26 846	500.0	23 924	427.7
Cultural & recreational services	12 946	65.0	10 838	52.1
Personal & other services	23 717	107.8	19 722	87.3
Other subsidiaries	664 379	3 799.5	586 779	3 086.3
Not stated	30 417	190.3	22 876	128.2
Total[1]	**1 551 089**	**8 321.5**	**1 394 299**	**6 866.3**

1. In 1996–97, the industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) was used. Therefore, this data should not be used for time series analysis as the industry groups are not comparable

Electronic lodgment service

Most tax returns are prepared by tax agents and therefore most are submitted electronically to the Tax Office for processing. In 1996–97, 81% of tax returns were submitted by tax agents.

In 1996–97, 71% of tax returns were lodged through the electronic lodgment service. This was an increase from 64% in 1992–93. The proportion of taxpayers lodging electronically is expected to continue growing as the Tax Office takes advantage of developments in electronic technology.

Electronic fund transfer

INB administers and maintains the electronic fund transfer — direct debit direct refund (EFT–DDDR) system for the Tax Office. This system allows individual taxpayers to have their income tax refunds deposited directly to their financial institution account. It also allows taxpayers to pay a taxation liability directly from their nominated account. The system provides taxpayers with a faster and more efficient method of receiving a refund and complying with their taxation obligations.

In 1996–97, 443,704 taxpayers received $414 million in refunds through the EFT–DDDR system. 42,538 taxpayers used the system to pay tax liabilities of $446 million.

Variation of tax instalment deductions

Individual taxpayers can apply to the Commissioner to vary their tax instalment deductions under section 221D of the *Income Tax Assessment Act*. In 1996–97, more than 61,000 variation applications were processed. Almost 8,000 of these were rejected.

The 221D function has been identified as an intelligence gathering apparatus for identifying pay-as-you-earn erosion activities in the individual taxpayer community. 221D variations are also a primary information source allowing the Commissioner to identify and assess potentially improper taxation reduction through the use of investment schemes.

Unpaid debts

Debt collection is an important aspect of the administration of the taxation system. Where taxpayers cannot or will not pay on time, the Commissioner of Taxation has powers to collect the overdue taxes in an appropriate manner.

The Tax Office will allow debtors to pay their tax debts by instalments where they face genuine difficulty and have the capacity to pay the debt over a reasonable period of time. Any decision to enter into an agreement to accept payment at a later date or by instalments is taken after considering the particular circumstances of the debtor.

If people are unable to pay their tax liability without facing ‘serious hardship’, they can apply to the Taxation Relief Board to be released from their liability. Serious hardship exists where payment of a tax liability results in the applicant being left without the means to purchase food, clothing, medical supplies, accommodation, education for children and other basic requirements. During the period 1 July 1996 to 30 June 1997, the relief board met on 55 occasions and granted $11 million in relief. They granted full relief in 822 (53%) cases. They granted partial relief in 194 cases and deferred 48 cases. The board did not grant any relief in 479 cases.

The Tax Office also has a garnishee process to automatically capture funds owing to the Commonwealth from individual taxpayer refunds. During 1997–98, the Tax Office collected $3.3 million for the Department of Social Security through 9,554 garnishees against lodged tax returns, and $2.0 million for the Department of Employment, Education, Training and Youth Affairs through 4,895 garnishees against lodged tax returns.

Return form compilation

Individual tax returns are lodged either electronically or in paper form. A copy of the form is in the appendix. Statistics for most of the items shown on the return form are included in the tables on the CD-ROM attached to this publication.

Detailed tables

The following detailed tables on individuals can be found on this CD-ROM.

Small Business

Small business

Small business

Within the Tax Office, small business taxpayers are clients of the small business income (SBI) business line.

The small business sector is made up of four categories of taxpayers. The first category consists of unincorporated businesses, i.e. those operating as individuals, partnerships or trusts, which report in their annual income tax return that their total business income is below $10 million. The second category consists of private companies which report that their total income is below $10 million. The third category consists of superannuation funds which report less than $50 million in investment income. Almost all superannuation funds are SBI clients. The final category is other taxpayers who report distributions from either partnerships or trusts with business income, but report no separate business income (or loss) in their own income tax returns (see 'Definitions' on this page).

All public companies, irrespective of their total income, and all other taxpayers exceeding the $10 million total business income threshold, are clients of the large business and international (LB&I) business line. These taxpayers are discussed in the 'Large business' chapter of this publication.

In addition to its general responsibility for the small business sector, the SBI business line also has responsibility for administration of fringe benefits tax, the reportable payments system, and provisional tax. These are discussed in their relevant chapters.

The statistics in this chapter are compiled from tax returns for the 1996–97 income year.

More detailed information on specific types of small business taxpayers, and the tax rates applicable to them, are presented in the 'Companies', 'Funds' and 'Partnerships and trusts' chapters of this publication.

Definitions

Other taxpayers: the tax returns of the fourth group of SBI clients — other taxpayers — are lodged by the partners and beneficiaries of, respectively, partnerships and trusts. These tax returns are not business returns (unless the taxpayers receive business income from other sources). Within the Tax Office they are referred to as 'subsidiary' returns. In this publication, subsidiary returns are not separately identified. They are included as part of the entries for individuals with business related income.

The inclusion of subsidiary returns in the SBI client population is the main reason why the number of small business taxpayers in this publication is more than four times the estimate of the number of small businesses published by the Australian Bureau of Statistics (ABS). Other major factors contributing to this difference include differences in the way Tax Office and ABS data are collected; size related differences in the Tax Office and ABS definitions of a small business; and inclusion in Tax Office data of those salary and wage earners reporting as little as $1 of business income.

Client population

In 1996–97, there were almost four million tax returns lodged by SBI clients. The majority (64%) were lodged by individuals. This was followed by companies (13%) and partnerships (12%). Overall, SBI clients accounted for 34% of all income tax returns lodged in the year. This was an increase from 32% in 1995–96.

The geographic distribution of SBI clients reflects Australia's population profile. In
1996–97, 31% of SBI clients lodged returns in NSW and 25% lodged in Victoria. However, Victoria had more trust returns than any other state (33%), reflecting the longstanding preference for using trusts for commercial activities in that state.

Table 4.1: Composition of the SBI client population

Entity	SBI Clients	
	'000	%
Individuals	2 549.7	64.2
Companies	530.5	13.3
Funds	142.7	3.6
Partnerships	493.4	12.4
Trusts	258.2	6.5
Total	**3 974.6**	**100.0**

Figure 4.1: Number of SBI clients

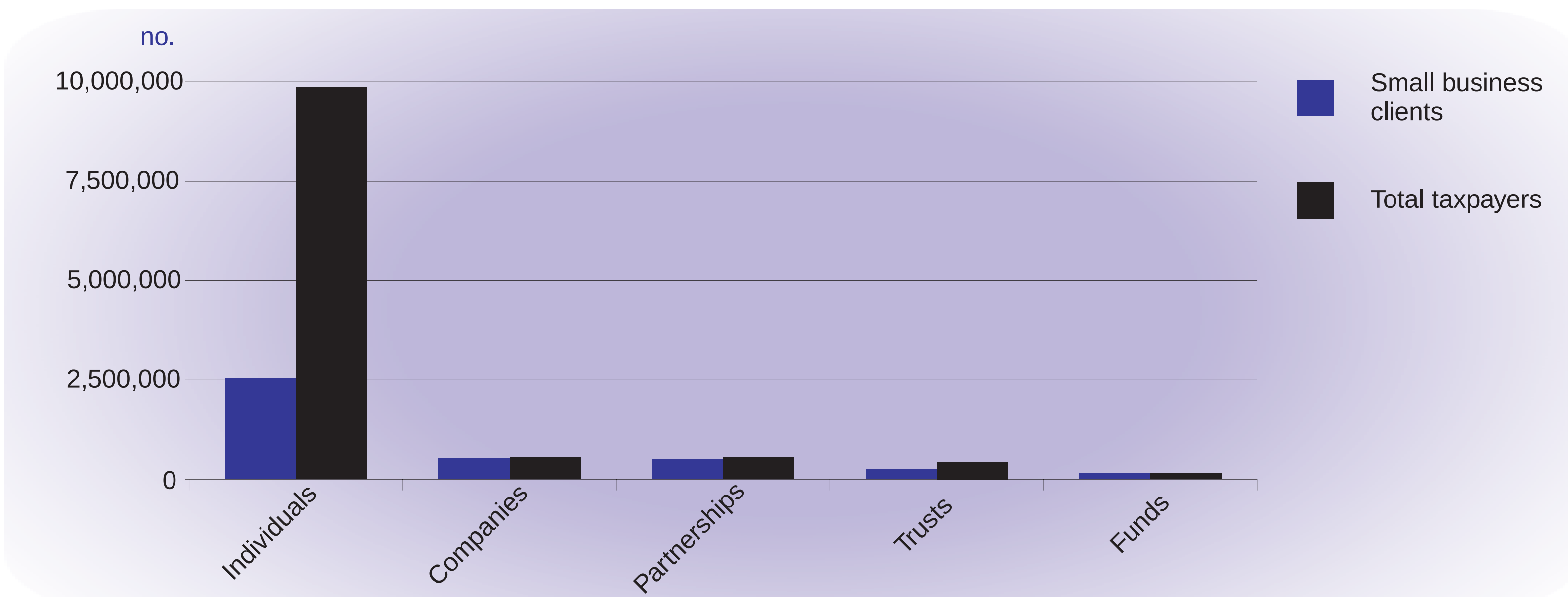


Table 4.2: SBI Clients by state and type of taxpayer

State	Individuals	Companies	Funds	Partnerships	Trusts	Total
	no.	no.	no.	no.	no.	no.
NSW	782 493	226 478	43 503	147 215	50 112	1 249 801
Vic.	640 566	121 055	39 303	113 381	84 898	999 203
Qld	489 455	79 773	22 797	108 188	46 934	747 147
WA	298 309	41 561	12 719	59 678	41 043	453 310
SA	215 858	32 791	10 067	40 982	21 250	320 948
Tas.	62 050	7 429	1 926	14 077	4 992	90 474
NT	16 703	4 020	339	2 516	1 337	24 915
ACT	38 200	7 224	1 528	4 999	2 462	54 413
Not stated	6 095	10 211	10 498	2 399	5 193	34 396
Total	**2 549 729**	**530 542**	**142 680**	**493 435**	**258 221**	**3 974 607**

Industry

In 1996–97, of those SBI clients for which industry was known, the largest proportions were in the finance, insurance, real estate and business services industry and the primary production industry (22% and 21% respectively). A further 13% were in the construction industry. 38% of all SBI clients did not identify their industry on their tax return.

Industry type varies according to the type of small business. For example, 50% of SBI companies were in the finance, insurance, real estate and business services industry. In comparison, only 11% of SBI individuals were in that industry. However, it is not possible to identify the industry from which all SBI individuals receive the business component of their income. The tax return only records the industry corresponding to the main source of income.

Table 4.3: SBI clients by industry[1]

Industry	Number	Proportion
	no.	%
Finance, insurance, real estate & business services	530 698	22.4
Primary production[2]	491 356	20.7
Construction	314 434	13.2
Retail trade	211 286	8.9
Salary & wages[3]	187 106	7.9
Manufacturing	134 947	5.7
Transport & storage	93 432	3.9
Personal & other services	92 684	3.9
Health & community services	76 748	3.2
Cultural & recreational services	62 830	2.6
Wholesale trade	60 887	2.6
Accommodation, cafes and restaurants	41 685	1.8
Property	27 686	1.2
Communication	21 284	0.9
Education	17 840	0.8
Mining	6 458	0.3
Electricity, gas & water	1 652	0.1
Total industry known	**2 373 013**	**100.0**
Not known[4]	1 458 914	
Total SBI clients[5]	**3 831 927**	

1. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, this data should not be used for time series analysis as the industry groups are not comparable.
2. Includes taxpayers who receive distributions from partnerships and trusts with primary production income.
3. Refers mainly to individual salary and wage earners in receipt of partnership and trust distributions of less than $1000.
4. Principally taxpayers with distributions from non-primary production partnerships or trusts. Usually a tax return does not indicate the type of business or industry which generated these distributions.
5. Excludes superannuation funds.

Income

SBI returns represent more than one-third (34%) of all returns. They account for 30% of total income, 24% of all taxable income and 27% of net tax.

Companies and individuals make up the majority of SBI clients. Individuals account for 74% of taxable income and 72% of net tax payable. In contrast, SBI companies account for only 18% of taxable income and 23% of net tax payable. One reason for the difference in taxable income and net tax payable is that individuals and companies are subject to different tax rates. For individuals, the amount of business income they receive is added to their non-business income. This is the basis for the calculation of their taxable income. They then pay tax on this income at the applicable progressive rate commencing at 20% plus the Medicare levy after the allowance of the tax-free threshold. Net tax payable is then calculated after allowance for rebates and credits. For companies, tax is paid at a flat rate of 36%.

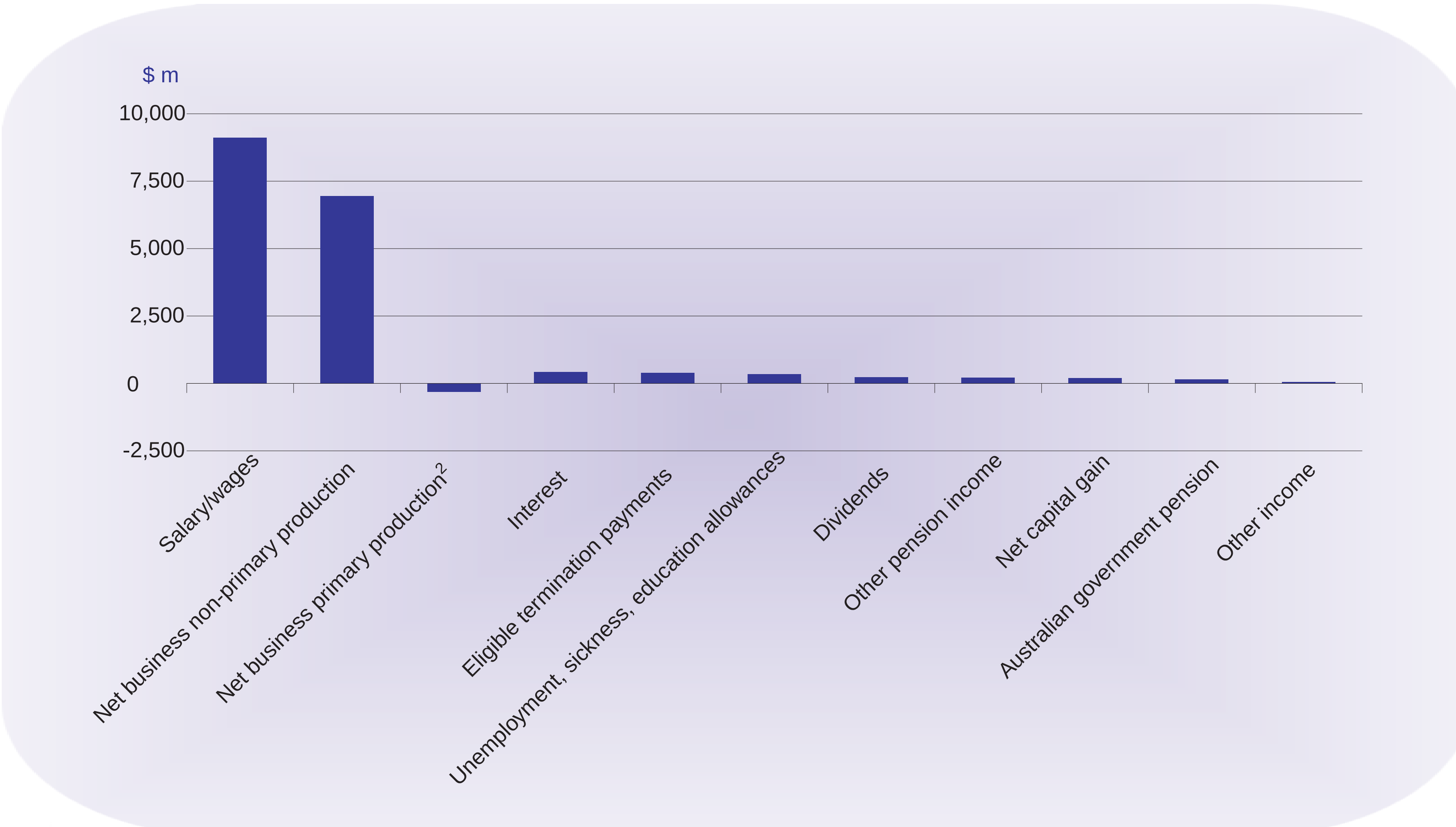
The source of income varies according to the type of taxpayer. For example, among SBI companies the majority of income (69%) comes from the sale of goods and services (see 'Companies' chapter). Among SBI individuals the majority of income comes from salary and wages (50%). The large proportion attributable to salary and wages highlights that many of these SBI individuals derived business income (or loss) from part-time activities, or that they may have been operating a business for only part of the year.

Table 4.4: SBI clients' income

Entity	Total business income[1]	Taxable income	Net tax payable
	$ m	$ m	$ m
Individuals[2]	37 607	67 397	15 520
Companies	207 229	16 285	5 035
Funds	8 226	6 954	905
Partnerships[3]	80 315	n.a.	n.a.
Trusts[3]	99 632	n.a.	n.a.
Total	**433 009**	**90 636**	**21 460**

1. Refers to total income for companies and superannuation funds.
2. For individuals, taxable income includes non-business taxable income, and net tax payable includes tax payable on non-business income.
3. Partnership and trust income is distributed to the partners or beneficiaries, and they are liable for any tax. This explains the entries for taxable income and net tax payable.

Figure 4.2: Sources of income for SBI individuals[1]



1. Includes only those individuals who return net business income or loss. Excludes those in receipt of partnerships and trust income.
2. The negative income shown for 'net business primary production' indicates that an overall net loss was incurred from this activity by SBI individuals.

Expenses

Companies claimed half of all expenses claimed by SBI taxpayers. This was followed by trusts (24%) and partnerships (18%). Individuals accounted for the remaining 8% of total expenses.

As expected, the greatest proportion (45%) of business expenses are incurred in relation to cost of sales. This was the most common expense for all types of SBI taxpayers. For companies and trusts, the second most common type of expense identified was external labour. For partnerships, the second most common type of expense was depreciation. Among individuals, it was motor vehicle expenses.

Table 4.5: Small business expenses[1]

Expenses	Companies	Trusts	Partnerships	Individuals	Total
	$ m	$ m	$ m	$ m	$ m
External labour	8 641	2 862	2 588	1 154	15 245
Superannuation deductions	3 816	1 894	355	224	6 289
Cost of sales[2]	89 562	45 088	28 306	10 336	173 292
Bad debts	335	140	94	32	601
Lease payments	1 359	704	660	308	3 031
Rent	5 064	2 659	2 134	1 186	11 043
Interest	4 997	2 533	2 674	888	11 092
Royalty	271	114	65	n.a.	450
Depreciation	4 276	2 219	3 219	1 312	11 026
Motor vehicles	3 370	1 258	2 232	2 000	8 860
Repairs & maintenance	1 944	1 171	1 814	529	5 458
Other	70 178	32 755	26 420	12 074	141 427
Total	**193 814**	**93 397**	**70 560**	**30 043**	**387 814**

1. Excludes superannuation funds.

2. Includes salary and wage expenses.

Profitability

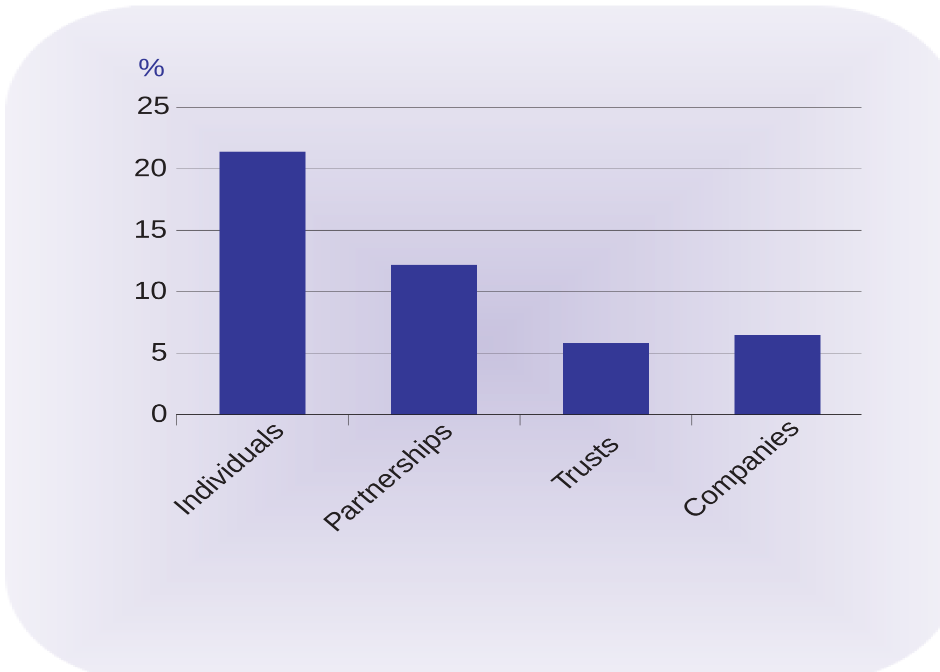
For individuals, partnerships and trusts, profit margin is defined as the ratio of net business income to total business income. For companies, profit margin is defined as the ratio of net operating profit or loss to total income.

In 1996–97, SBI individuals had the highest profit margin (21%) within the small business sector, while companies and trusts had the lowest reported levels (6% each). The same pattern occurred in 1995–96.

Small business profit margins also varied considerably according to industry. In 1996–97, the highest profit margins were reported by the property industry (29%), and the finance, insurance, real estate and business services industry (18%). It is also noteworthy that the industry with the highest annual turnover, the retail trade industry ($88 billion), reported a very low profit margin (3%).

In analysing these figures, it is important to note that profit margins are calculated differently depending on the type of taxpayer. Therefore, these industry comparisons may be affected by the types of taxpayers making up each industry.

Figure 4.3: Profit margin by type of taxpayer



The most profitable industries for taxable SBI companies are mining and wholesale trade, with average profits of $105,809 and $93,888 respectively. These industries combined are liable for 8% of all company income tax and represent 5% of the taxable SBI company population. The finance, insurance, real estate and business services industry is liable for 52% of all company income tax, and represented 51% of the taxable SBI company population. The mining and wholesale trade industries paid the highest average net tax ($38,089 and $33,380 respectively).

Table 4.6: Profit margin[1] by industry[2]

Industry	Clients	Turnover[3]	Profit margin
	no.	$'000	%
Property	27 686	8 872	29
Finance, insurance, real estate & business servi	530 698	50 758 319	18
Health & community services	76 748	11 613 986	15
Communication	21 284	1 640 261	14
Construction	314 577	37 766 616	12
Personal & other services	92 684	7 352 903	11
Education	17 840	730 608	9
Transport & storage	93 432	14 516 870	9
Primary production	491 356	29 980 683	8
Mining	6 458	1 448 364	6
Manufacturing	134 947	42 839 634	5
Accommodation, cafes & restaurants	41 685	15 459 754	4
Retail trade	211 286	88 105 734	3
Wholesale trade	60 887	40 864 499	3
Cultural & recreational services	62 830	4 585 459	-1
Electricity, gas & water	1 652	802 842	-10
Industry not known	1 458 771	12 377 094	10
Total[4]	**3 831 927**	**360 852 624**	**9**

1. Excludes superannuation funds.
2. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system.
   Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, this data should not be used for time series analysis as the industry groups are not comparable.
3. Turnover refers to sale of goods and services for companies and total business income for all other entities.
4. Includes salary and wage earners.

Table 4.7: Taxable SBI companies by industry[1]

Industry	Number of companies	Net tax	Operating profit/loss	Average net tax	Average profit
	no.	$'000	$'000	$	$
Finance, insurance, real estate & business services	113 241	2 641 325	8 616 004	23 325	76 086
Construction	19 536	316 983	877 393	16 226	44 912
Retail trade	17 764	326 610	933 592	18 386	52 555
Manufacturing	15 776	517 110	1 471 736	32 778	93 290
Wholesale trade	10 561	352 529	991 552	33 380	93 888
Transport & storage	7 521	124 326	366 581	16 531	48 741
Health & community services	7 256	101 594	289 767	14 001	39 935
Primary production	5 091	146 972	458 529	28 869	90 067
Personal & other services	4 775	73 162	217 723	15 322	45 596
Accommodation, cafes & restaurants	3 642	90 399	284 650	24 821	78 158
Cultural & recreational services	3 417	78 651	244 191	23 018	71 464
Communication	838	14 218	38 500	16 967	45 943
Mining	794	30 242	84 012	38 089	105 809
Education	651	12 072	34 655	18 544	53 234
Electricity, gas & water	207	3 812	11 057	18 414	53 417
Government administration & defence	32	413	1 165	12 912	36 420
Industry not known	10 458	205 474	642 022	19 648	61 391
Total	**221 528**	**5 035 480**	**15 561 966**	**22 731**	**70 248**

1. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, this data should not be used for time series analysis as the industry groups are not comparable.

SBI market segments

Due to the large numbers and diversity of SBI clients, those who lodge returns with business income have been categorised into five broad market segments for administrative purposes. Superannuation funds and subsidiary income tax returns, which have no business income, are excluded from these categories. The SBI segments are: small medium enterprises, micro businesses, self-employed, non-commercial and non-profit.

The self-employed market segment makes up 47% of all returns. This was followed by non-commercial (25%), micro businesses (18%), small medium enterprises (SMEs) (9%) and non-profit (1%).

While SMEs lodged only 9% of SBI returns, they accounted for 63% of total business income. The non-commercial segment accounted for less than 1% of total business income, although they lodged 25% of all SBI returns.

Table 4.8: SBI clients[1] and total business income by segment and entity[2]

			Non-profit	Non-commercial	Self-employed	Micro Business	SME	Total[3]
Individuals	Number of clients	’000	0	323	325	125	20	792
	Total business income	$ m	0	1 187	18 297	11 048	7 115	37 649
Companies	Number of clients	’000	11	71	161	121	98	463
	Total business income[4]	$ m	4 698	168	20 300	26 757	155 404	207 327
Partnerships	Number of clients	’000	0	68	326	52	18	464
	Total business income	$ m	0	285	35 481	15 078	29 487	80 331
Trusts	Number of clients	’000	0	17	72	49	41	179
	Total business income	$ m	0	67	9 539	12 460	77 585	99 650
Total[1]	**Number of clients**	**’000**	**11**	**479**	**884**	**348**	**177**	**1 898**
	Total business income	**$ m**	**4 698**	**1 707**	**83 617**	**65 343**	**269 591**	**424 958**

1. Clients with negative or nil total business income are excluded.
2. Excludes superannuation funds.
3. Includes unexpected values.
4. Refers to total income for companies.

Definitions

Small medium enterprises: refers to clients with total business income between $10,000 and $1 million and salary and wage expenses of more than $100,000; and also those with a total business income greater than $1 million.

Micro businesses: refers to clients with total business income between $10,000 and $1 million, and salary and wage expenses between $20,000 and $100,000.

Self-employed: refers to clients with total business income between $10,000 and $1 million, and salary and wage expenses below $20,000.

Non-commercial: refers to clients with total business income below $10,000.

Non-profit: refers to companies identified as cooperative, non-profit or registered organisations.

Cash economy

Cash plays an essential role in the Australian community, and will continue to do so into the future, despite growth in the use of EFTPOS and other forms of electronic commerce. The nature and existence of cash, however, provides an opportunity for evading tax. As a result, the 'cash economy' provides a challenge to revenue administrations around the world.

Currently there is no official estimate of the size of the cash economy in Australia, nor of the taxation revenue foregone due to the non-declaration of cash income. Academic studies estimate the cash economy to be somewhere between 3.5% and 13.4% of GDP.

A Cash Economy Task Force was set up in late 1996 with a continuing brief to advise the Tax Office on the cash economy and methods of enhancing compliance with the tax laws. In response the Tax Office has implemented a comprehensive strategy which includes:

- a significant field presence in certain high risk cash industries, concentrating on improving overall levels of compliance through education, assistance and enforcement;

- involvement of industry associations, community groups and tax practitioners in the development of generic and industry-specific solutions to compliance problems;
- improved cross-agency cooperation involving the Tax Office, Centrelink, the Department of Immigration and Multicultural Affairs and the Department of Employment, Education, Training and Youth Affairs; and
- research into the cash economy and the systemic and behavioural issues that contribute to tax evasion.

During 1997–98, the Tax Office had direct contact with approximately 40,000 taxpayers in targeted high risk cash industries. Feedback from industry, community and tax practitioner groups to the Tax Office's approach has been generally positive, and while it is too early to make definitive statements about progress, the early signs are encouraging. Some of the highlights are:

- 1996–97 tax return lodgments in targeted industries are up 7% compared to 1995–96 lodgments;
- audits conducted in targeted industries have identified $53 million in undeclared income;
- the reportable payments system has been successfully implemented in the fruit and vegetables industry; and
- sales tax evasion in the computer goods industry is being addressed.

Electronic commerce

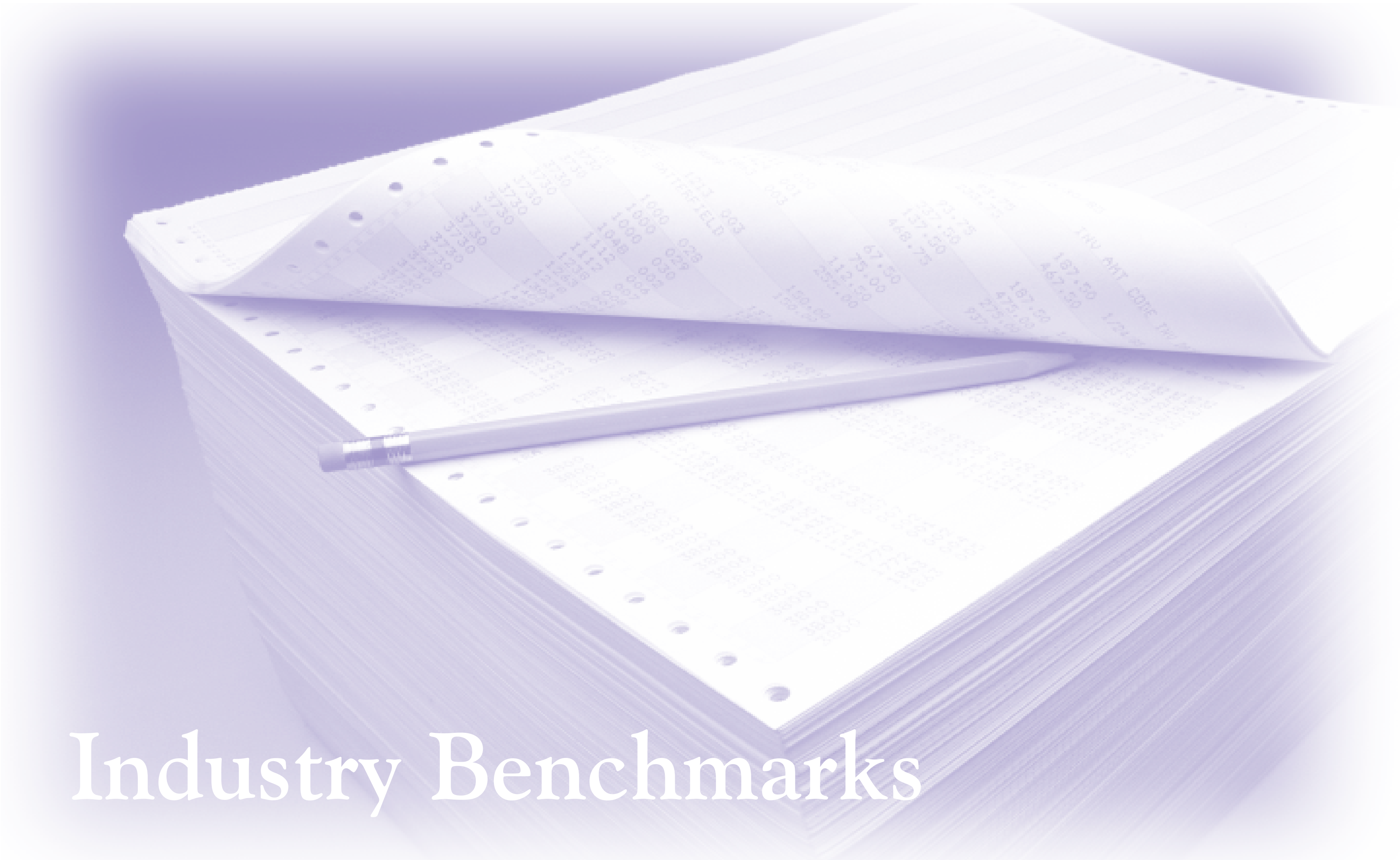
The rapid growth of the Internet in Australia is creating opportunities for Australian business to gain exposure to a world market. The Tax Office must ensure the potential growth in Australian business due to electronic commerce is not at the expense of national revenue and that electronic commerce technologies are not used to erode Australia's tax base.

In 1997, the Tax Office published a discussion report entitled Tax and the Internet which outlined some of the challenges facing the tax administration and made some preliminary recommendations for dealing with them. Following publication of the report, the Tax Office conducted extensive consultations with interested members of the public and other relevant government agencies.

The Tax Office proposes to release a second report in the near future which will set out how its views on these issues have developed since last year's report.

Detailed tables

The following detailed tables on small business taxpayers can be found on this CD-ROM.



Industry Benchmarks

Industry benchmarks

Industry benchmarks

In May 1997, the Tax Office released the *Cash Economy Task Force* report. The report stated that tackling the cash economy must be a priority for the Tax Office if it is to maintain community confidence in the tax system. It said the Tax Office needed to adopt a more open approach and increase its visibility among the business community. The report also suggested a range of priority initiatives that the Tax Office could take to increase its effectiveness in dealing with evasion through the cash economy. The compliance improvement initiatives that were suggested by the task force included:

- developing industry benchmarks of financial characteristics;
- profiling industry markets jointly with industry groups and tax practitioners; and
- encouraging the use of these profiles to achieve compliance improvement.

The task force also recommended that the Tax Office develop 'tool kits', such as industry profiles and benchmark data, that add value to tax agents' practices and help improve compliance.

Definitions

Gross profit ratio: is calculated as total business income minus cost of sales, divided by total business income.

Net profit ratio: is calculated as total business income minus total expenses, divided by total business income.

Wages to turnover ratio: is calculated as salary and wages paid divided by total business income

In July 1997 the Tax Office met with professional bodies which suggested that practice notes, guidelines and checklists might assist practitioners to prepare returns and give advice to their clients. As a result, the Tax Office and professional bodies have been working together to develop a package for tax agents setting out recommended approaches for particular tax issues.

Consistent with this, preliminary financial ratios regarding some of the high risk cash industries were calculated and released. Suggestions for improvement were received from a large number of tax agents and from some industry groups. As a result further ratios have been calculated and are presented in this publication. The Tax Office will continue consulting with tax professionals and business groups to refine the process and to expand the range of information available.

The major objective is to produce industry benchmarks that are useful to tax professionals, the business community and the Tax Office. Initially, the Tax Office calculated ratios on gross profit, net profit and wages to turnover. These ratios were selected because:

- they are widely used in external publications;
- they can be consistently calculated from Tax Office return information; and
- they will be useful to tax practitioners, the business community and the Tax Office.

For the first set of financial benchmarks only some industries were included. All the industries initially selected have a relatively high percentage of cash transactions. The industries were:

- building and construction — house construction, bricklaying, plumbing, carpentry, roofing, and painting and decorating services;
- fruit and vegetable growers, processors and retailers;
- clothing manufacturers and wholesalers;
- hospitality — pubs, taverns and bars, cafes and restaurants, and licensed clubs; and
- road transport — road freight transport and courier services.

Calculating ratios

Exclusion criteria: when analysing a large population there are cases which, if included, would produce misleading results. For example, there will be cases where income tax return labels have either not been filled in or not been used correctly, and where the ratios for an individual entity are exceptional and would distort the calculation of a true industry average. In an attempt to remove these cases from the calculation of the ratios and thereby improve the quality of the end product, certain exclusion criteria were developed and used. A full list of the exclusion criteria is available on the CD-ROM attached to this publication.

Ratio calculations: ratios were calculated for each taxpayer in the population and then, using these figures, two sets of average ratio values were determined for each of the sub-groups. The first set includes both profit and loss making entities. It acknowledges there are many taxpayers each year who return losses and provides a benchmark figure for the entire industry population. The second set of ratios excludes those businesses that return a loss and so provides an industry average for ‘profitable’ businesses. There will be circumstances where one particular benchmark will be more useful than the other. However, in many situations both sets of ratios will be beneficial.

Industry: income tax returns only allow for one industry code to be shown, representing the main business activity of the entity. For entities involved in more than one business, it is not possible to identify the amount of income and expenses that can be directly attributed to the major business activity.

Cost of sales: for income tax purposes, cost of sales is defined as the cost of anything produced, manufactured, acquired or purchased for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. In some cases other expenses such as salary and wages and rent are included in the cost of sales figure. The cost of sales amount is therefore overstated in these cases.

Salary and wages expenses: the total salary and wages expenses label is not used in the calculation of taxable income. It is a non-compulsory information label and is therefore more likely to contain errors.

Population size variations: when using a particular ratio it is important to note the size of the population, as an average ratio calculated using a large population will generally be more reliable than one calculated from a small population. For each entity type and industry, average ratios have been calculated by state of lodgment, total business income range, market segment and business age. These divisions resulted in some widely varying population sizes. For industries with small numbers nationally, it was decided not to show separate ratios by state, total business income range, market segment or business age. The population sizes produced by these breakdowns were considered to be too small to provide reliable averages.

The purpose of benchmarks

Benchmarks help tax advisers to identify businesses which vary significantly from industry averages. Advisers can then use this information to determine why there is such variance, and to identify action that should be taken to correct problems and improve business practices, in particular record keeping. The general business community and business owners may use the information to compare the performance of their business with industry averages.

For example, a low gross profit ratio may indicate to a business owner that:

- their job quotes or prices are lower than their competitors;
- they are paying too much for their stock purchases;
- their estimates of materials to complete jobs are too high resulting in inefficiencies due to wastage of materials;
- they do not have enough sales in higher profit margin lines (poor sales mix);
- improvements in the way products are merchandised and displayed may need to be considered; and
- their stock level is too high and it may be better to buy the stock as it is needed and improve the cashflow of the business.

A low net profit ratio may indicate that some operating expenses are high in comparison to industry averages. A business owner might need to look at:

- the location of their business and rent expenses;
- the level of contractor and sub-contractor expenses;
- the number and effectiveness of their employees;
- the cost to the business of motor vehicles; and
- the cost of other major overheads.

For a business owner, a high wages to turnover ratio might suggest that quotes for jobs are too low. This ratio could also be an indicator of the efficiency of the labour used in a business. In particular, an owner may consider:

- the rate at which employees are producing income;
- the time taken to complete jobs; and
- the pay rates of the employees.

The ratios may also be used by the business community when evaluating tenders submitted for jobs. The gross and net profit ratios of a business compared to the industry average may be one factor that is taken into account in deciding whether a particular tender is successful.

For the Tax Office, the ratios are part of a move to be more open and current in its operations. By doing this, the Tax Office is looking to have a more direct impact on behaviour before tax returns are lodged. The benchmarks may also be used, together with other information, to identify taxpayers who require further assistance or monitoring. The wages to turnover ratio, in particular, will provide a relevant measure in those industries where cash wages are common. The Tax Office may also make comparisons between taxpayers and seek further information from those clients whose ratios vary significantly from industry averages.

Of course, it is important to understand that the ratios developed are not definitive benchmarks. There will be a range of legitimate reasons why businesses will vary from the industry averages. Similarly, businesses whose ratios are close to the average may, for various reasons, have compliance problems or other financial difficulties. It would not be appropriate to use the benchmarks in isolation.

However, the benchmarks may be useful as a guide when considered over a period of time or in conjunction with other information. For example, while the aim of going into business should be to make a profit, establishment costs often result in significant losses being incurred in the first year. Even after a business is established, profits will usually not be made every year. Business generally has a cyclical nature — there will be some good years and some bad years. When considering the viability of a business, factors such as the age of the business and its performance over several years need to be taken into account.

Ratios

The net profit ratios of companies are generally much lower than those of other entities. The main reason for this is that the income returned to the owners of a company in the form of salary and wages is generally a business expense for the company. However, in a partnership, the income returned to the partners comes in the form of a distribution of net income after business expenses are deducted. The situation is similar for individuals.

Although there are some differences in the gross profit, and wages to turnover ratios, in many cases the values are similar for all entities. These trends are shown in table 5.1, using the example of the grape growing industry.

For most industries and entity types, the gross profit and net profit ratios tend to decrease as the level of total business income increases. This is likely to be due to higher overheads and a shift in focus towards sales volumes at the expense of profit margins as turnover increases. Using the example of profitable companies in the carpentry services industry, table 5.2 illustrates this effect and also shows that the wage to turnover ratio follows a similar trend.

In the majority of cases, there is little difference in the values of the ratios calculated for each state. Most of the larger variations are associated with small sample sizes and so may not be reliable. However, there are some cases where the population sizes are reasonable and the ratio values are significantly different. One example of this is the plumbing services net profit ratio for companies in Western Australia.

Table 5.1: Ratio values by entity: grape growing, all established businesses

Entity	Gross profit ratio	Net profit ratio	Wages to turnover ratio
	%	%	%
Individuals	76.21	19.76	28.92
Companies	71.99	8.87	28.49
Partnerships	82.85	18.29	21.89
Trusts	79.41	19.42	23.84

Table 5.2: Ratio values by total business income: carpentery services, profitable companies

Total business income	Gross profit ratio	Net profit ratio	Wages to turnover ratio
	%	%	%
$10,000–$49,999	80.93	12.02	60.54
$50,000–$99,999	78.17	10.38	48.43
$100,000–$299,999	66.16	8.33	31.89
$300,000–$499,999	54.37	5.51	23.57
$500,000–$999,999	50.55	5.61	19.81
$1,000,000–$4,999,999	49.16	5.86	18.12
$5,000,000–$9,999,999	28.73	4.58	15.05
$10,000,000–$19,999,999	28.28	5.66	8.99

Table 5.3: Ratio values by state of lodgement: plumbing services, all companies

State	Gross profit ratio	Net profit ratio	Wages to turnover ratio
	%	%	%
NSW	60.65	2.50	31.66
Vic.	56.75	2.95	28.75
Qld	56.20	4.40	27.69
WA	57.63	8.23	28.49
SA/NT	56.42	3.82	25.71
Tas.	51.19	2.57	27.10
ACT	63.20	2.71	28.82

Comparison with other organisations

Other organisations have produced a large amount of industry benchmark information. In some instances there are wide variations in the values published for a particular benchmark. Factors which cause these variations would include differences in sample sizes, selection criteria, industry definitions, and interpretation of financial data. After taking into account these variations and allowing for the different data used, the Tax Office's ratios are generally comparable with what has been published by other organisations.

The large number of income tax returns available enables the Tax Office to provide finer breakdowns (e.g. by entity type, state and market segment) for individual industries while still maintaining reasonable sample sizes. The ratio tables presented on the CD-ROM attached to this publication show the number of entities used to calculate each average ratio value. This piece of information will assist in assessing the usefulness of each ratio.

The future

The Tax Office intends to refine the process of producing industry benchmarks and to improve the quality and range of information being provided. It will continue to liaise with tax professionals, the business community and industry associations to evaluate the initiative and receive feedback about the range of information that should be made available.

The Tax Office will consider:

- expanding the scope of the benchmarks to cover all industries;
- breaking down the ratios in different ways (e.g. by total business income quartile ranges or type of trust);
- publishing a range of values for each ratio as well as other important statistics such as medians, skewness and standard deviations;
- identifying sub-populations within an industry which may have different characteristics and therefore different ratios (e.g. businesses with employees compared to those that do not employ staff, or cases with a cost of sales compared to those that apparently have no sales); and
- publishing other ratios such as earnings per full time equivalent or total income per dollar of salary and wages and contractor payments.

The evaluation will also identify changes that would improve the quality of the information collected, such as:

- recommending changes to tax return labels (e.g. moving the information only 'total salary and wage expenses' label to the expenses block so that it forms part of the calculation of taxable income in a return);
- identifying appropriate changes to industry classifications (e.g. where a particular ANZSIC code covers too broad a range of business activities); and
- identifying areas where further education could improve the quality of data captured in tax returns.

The Tax Office is also keen to develop the concept of industry benchmarking beyond that which can be generated from information contained in tax returns. For example, field work results may be published, or the results used to supplement tax return details and produce new benchmarks. The Tax Office may also investigate whether data published by external organisations could be combined with tax return details to produce useful benchmarks.

Detailed tables

The following detailed tables on industry benchmarks are available on this CD-ROM.

Table 1: Industry benchmarks: by entity, by business status, by selected industry

Table 2: Industry benchmarks: by entity, by grade of business income, by selected industry

Table 3: Industry benchmarks: by entity, by market segment, by selected industry

Table 4: Industry benchmarks: by entity, by state, by selected industry

Table 5: Industry benchmarks: exclusion criteria used

Large business

Large business

Large business

For tax purposes, large businesses are generally defined as those entities who lodge returns with total income, as shown on the income tax return, of $10 million or more. Superannuation funds with total investment income of $50 million or more are also classified as large businesses. In addition, all public companies not operating as bodies corporate and all subsidiaries of large businesses are classified as large businesses, regardless of their total income. Companies make up the majority of large businesses.

Individuals are defined as large businesses if they have gross income greater than $10 million. Individuals with a gross income of less than $10 million are also classified as large businesses if they have non-primary production business income derived from a partnership or trust which has been defined as a large business. An individual has non-primary production business income if they have any distributions or deductions from partnerships and trusts.

Within the Tax Office, large businesses are clients of the large business and international (LB&I) business line.

LB&I

LB&I's role is to manage and shape the domestic and international tax systems as they apply to large business, associated key individuals and cross border dealings. The LB&I business line was formed in 1994 as part of a Tax Office restructure.

Due to the size, complex nature, and diversity of industries and markets in which large businesses operate, the LB&I business line is divided into seven industry segments — banking and finance, insurance and superannuation, manufacturing, media and communication, mining and petroleum, property and construction, and services. Each LB&I industry segment has responsibility for the large businesses within a certain set of industry classes. There are also seven subject specialisations — capital gains, high wealth individuals, international, privatisation, research and development, development allowances and strategic intelligence. Functions include research, revenue and compliance management, dispute resolution, policy and legislation, negotiation of double tax agreements with other countries, and provision of advice and assistance to taxpayers.

LB&I operates in a complex environment. Globalisation, technological change and deregulation are having profound effects on the movement of capital, the volatility of skills, and the competitive advantage corporations can elicit from national or regional governments. Taxation is part of this competitive international equation. This is complicated further where international taxation standards are vague or non-existent, or where some countries use taxation as a competitive lure to attract investment.

LB&I has developed a strong industry and outcome focus. It has increased its consultation and liaison with industry and other tax administrations, and implemented a range of systems to ensure that risk assessments identify the patterns and trends of client behaviour, and that strategies address the underlying causes of non-compliance.

LB&I performance

Revenue collections for the 1997–98 financial year exceeded budget by $530 million. During the past three years, collections from compliance programs have increased from $162 million in 1995–96, to $452 million in 1997–98. Over the same period, additional tax and penalties raised through compliance activity increased from $371 million to $793 million.

LB&I's compliance coverage has increased through the systematic use of tax return information — for example, data on international transactions, expanded intelligence work on the marketing of tax avoidance schemes and increased fieldwork. LB&I has also implemented a 'real time' revenue performance strategy that involves regular contact with key taxpayers to identify increases or decreases they expect in their company tax. At 30 June 1997, 545 cases were subject to various types of review or audit. This number had increased to 758 at 30 June 1998.

LB&I is also conducting projects on major risk areas including losses, business financing, capital gains, electronic commerce and the Sydney 2000 Olympics.

Coverage

The statistics in this chapter are compiled from tax returns for the 1996–97 income year.

Detailed information on specific types of large businesses including applicable tax rates are presented in the 'Companies', 'Funds' and 'Partnerships and trusts' chapters of this publication.

Client population

In 1996–97, 32,480 tax returns were lodged by LB&I clients. Companies made up 89% of the total LB&I client population, but this represented only 5% of total companies.

The geographic distribution of LB&I taxpayers reflects the dominance of Sydney and Melbourne as the major business centres of Australia. In 1996–97, 45% of LB&I tax returns were lodged in NSW, with a further 21% lodged in Victoria and 14% lodged in Queensland.

The number of LB&I clients has increased by 4,828 over the past year. This is partly due to a change in the way LB&I clients have been identified in the 1996–97 income year.

Figure 6.1: Composition of the LB&I client population

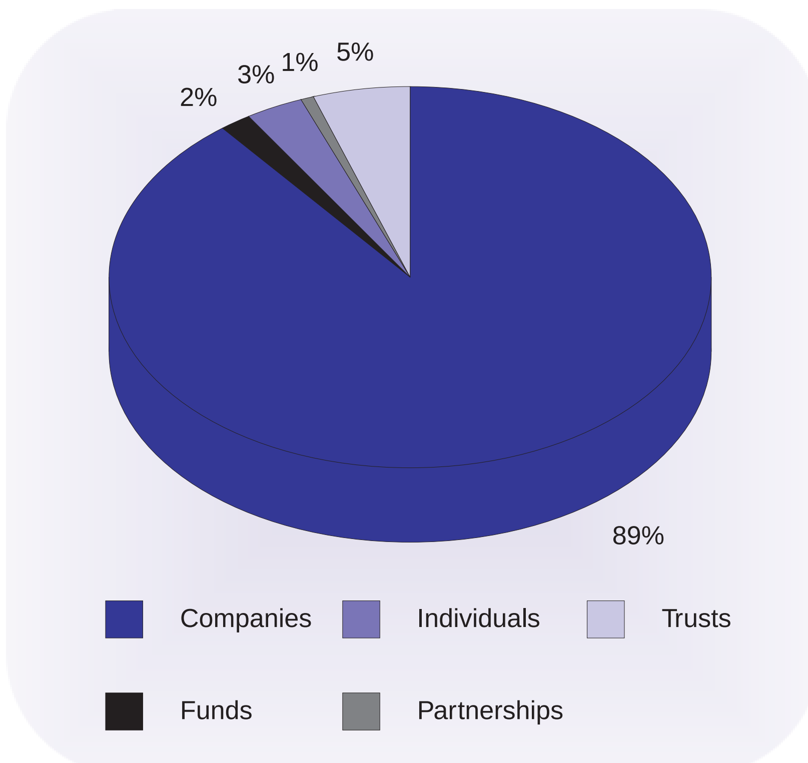


Table 6.1: LB&I clients by state and entity

State	Companies	Trusts	Individuals	Funds	Partnerships	Total
	no.	no.	no.	no.	no.	no.
NSW	13 547	355	374	260	99	14 635
Vic.	5 925	520	313	173	44	6 975
Qld	4 149	253	149	28	46	4 625
SA	1 523	76	70	11	12	1 692
WA	2 565	249	72	27	25	2 938
Tas.	291	15	21	10	0	337
NT	131	17	7	1	0	157
ACT	236	10	6	7	3	262
Not stated	611	207	4	25	12	859
Total	**28 978**	**1 702**	**1 016**	**542**	**242**	**32 480**

Note: Refers to the state in which large businesses lodged their returns, which may not be where all their business activities were conducted.

Industry

In 1996–97, among those LB&I clients for which industry classification was known, the largest proportion were in the finance, insurance, real estate and business services industry (51%). This was followed by the manufacturing industry and wholesale trade industry (11% each). 10% of all large businesses did not identify their industry on their tax return.

The proportion of LB&I clients in each industry varied according to their entity type. For example, 52% of all LB&I companies were in the finance, insurance, real estate and business services industry, compared to only 13% of LB&I individuals.

The industry breakdown of LB&I clients differs from the breakdown for SBI clients. The most common industry among SBI clients was the finance, insurance, real estate and business services industry, however the proportion of clients this industry represented was much smaller (22%). This was followed by primary production (21%) and construction (13%). This difference may reflect the more complex structures of LB&I clients, many of which have separate finance subsidiaries.

The income, expenditure, profitability and level of tax payable by a large business depends to a large extent on the characteristics of the industry in which the business operates. The performance of businesses within a particular industry may be influenced by factors such as:

- the industry life cycle;
- the economic/business cycle;
- the level of competition within the industry;
- the threat of new entrants;
- the level of regulation in the industry;
- the emergence of substitutes;
- technological changes;
- political changes; and
- changes in tastes/preferences within society.

Table 6.2: LB&I returns[1] by industry[2]

Industry	Number	Proportion
	no.	%
Finance, insurance, real estate & business services	14 562	50.7
Manufacturing	3 292	11.5
Wholesale trade	3 180	11.1
Retail trade	1 842	6.4
Mining & petroleum	1 330	4.6
Transport & storage	902	3.1
Construction	895	3.1
Accommodation, cafes & restaurants	678	2.4
Primary production	534	1.9
Cultural & recreational services	480	1.7
Personal & other services	279	1.0
Health & community services	272	0.9
Property	174	0.6
Electricity, gas & water	126	0.4
Communication	121	0.4
Total industry known	**28 707**	**100.0**
Not stated	3 231	
Total	**31 938**	

1. Excludes funds.

2. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, this data should not be used for time series analysis as the industry groups are not comparable.

Income

In 1996–97, LB&I clients accounted for only 0.3% of all income tax returns lodged. However, they accounted for 54% of total income, 25% of taxable income and 18% of all net tax payable.

Companies make up the majority of LB&I clients. They accounted for 96% of total large business income, 83% of all taxable income and 88% of net tax payable.

The major sources of income for LB&I clients vary between entity types. For example, among LB&I companies the majority of income is generated from the sale of goods and services (65%). In contrast, among LB&I individuals, the majority of income is derived from distributions from partnerships and trusts (74%).

Table 6.3: LB&I clients' income by entity

Entity	Total income	Taxable income	Net tax
	$ m	$ m	$ m
Companies	799 933	79 665	13 125
Individuals	607	564	94
Funds	25 212	16 220	1 618
Partnerships[1]	3 278	n.a.	n.a.
Trusts[1]	7 739	n.a.	n.a.
Total	**836 769**	**96 449**	**14 837**

1. Profits from partnerships and trusts are distributed to beneficiaries who pay tax on the income.

Table 6.4: Source of LB&I clients income by entity

Source of income	Partnerships	Trusts	Companies	Individuals	Total
	$ m	$ m	$ m	$ m	$ m
Sales of goods & services	n.a.	n.a.	519 121	n.a.	519 121
Income from partnerships & trusts	80	1 406	4 602	449	6 538
Gross rents, leasing & hiring	36	813	8 003	10	8 862
Gross interest	42	1 349	89 163	15	90 569
Gross dividends	19	862	37 039	33	37 953
Other gross income[1]	3 101	3 309	142 006	99	148 515
Total income	**3 278**	**7 739**	**799 933**	**607**	**811 558**

1. Includes all other income such as royalties, insurance recoveries, subsidies, employee contributions to fringe benefits tax and government assistance from all sources.

Expenses

In 1996–97, companies accounted for 95% of total expenses claimed by LB&I clients.

As with income, the major types of expenses for LB&I clients vary between industries and between entity types. For example, interest expenses make up 10% of expenses for LB&I companies, while they make up only 2% of expenses for LB&I individuals, partnerships and trusts.

Table 6.5: LB&I clients' expenses by entity

Type of expense	Partnerships	Trusts	Companies	Individuals	Total
	$ m	$ m	$ m	$ m	$ m
Cost of sales	1 765	17 850	357 486	265	377 366
Interest expenses	167	503	73 214	7	73 891
Depreciation	145	342	17 792	5	18 284
External labour costs	324	513	12 230	15	13 082
Repairs & maintenance	31	158	8 974	3	9 166
Rent	133	437	7 850	3	8 423
Superannuation deductions	33	206	4 392	1	4 632
Lease payments	43	121	4 027	1	4 192
Royalty expenses	21	66	3 528	n.a.	3 615
Motor vehicle expenses	8	126	2 505	5	2 644
Bad debts	23	58	1 457	0	1 538
Other	4 089	7 036	229 212	51	240 388
Total expenses	**6 782**	**27 415**	**722 668**	**356**	**757 221**

Net tax

Large companies and superannuation funds pay their tax under a quarterly instalment system. In this system, the first two instalments are paid in the year in which the income is earned, and the third and fourth instalments are paid in the following year.

Partnerships and trusts do not generally pay tax in their own right. Partnerships distribute their net income (or loss) to the partners who include their share in their income tax returns. Trusts distribute their income to beneficiaries who include the income in their tax returns. If no beneficiary is presently entitled to a trust distribution, or if the beneficiaries are entitled to a distribution but are under a legal disability (e.g. a minor), then the trustee is liable to be assessed on the trust's net income.

In 1996–97, LB&I clients were liable for $14.8 billion in net tax. Most of this liability was incurred by companies (88%). Superannuation funds were liable for a further 11%. Less than 1% was payable by individuals.

LB&I companies made up only 5% of all companies, yet they were liable for the majority (72%) of all net tax payable by companies. Similarly, LB&I funds made up only 0.4% of all funds, yet they were liable for 64% of all net tax payable by funds.

On average, resident LB&I companies have a greater total income and taxable income than non-resident LB&I companies. In 1996–97, resident LB&I companies had an average total income of $27.5 million and an average taxable income of $2.8 million. Non-resident LB&I companies had a higher average total income of $32.8 million, but a lower average taxable income of $2.4 million. However, non-resident LB&I companies had a higher average net tax payable than resident LB&I companies, $859,940 compared to $447,850.

Ratio analysis

Six ratios have been calculated for LB&I companies at the broad industry level. These ratios provide an insight into the operations of large companies and show any similarities and/or differences between industries. There are many factors that can create differences in the values of these ratios. Varied legislative measures, industry structure and individual business operation can all influence the level of the ratios. It should be noted that the ratios are averages across each industry and, as such, may be influenced by, and tend to mask, the companies that have values at the extremes.

Table 6.6 shows that the financial ratios chosen, especially interest cover ratio and effective rate of tax, vary between industries. For example, the effective rate of tax varies from between 7% for the electricity, gas and water industry, to 37% for the government, administration and defence industry.

One ratio that stands out is the high interest cover ratio for the government, administration and defence industry. This ratio is high because their interest expenses are quite low. This is caused by balance sheet structures that differ from those used by non-government entities, due to the availability of non-commercial borrowing conditions.

Definitions

Return on assets: is the operating profit or loss, plus interest costs, minus tax payable, divided by total assets. This measures the ordinary economic return that accrues to a business from their assets. Interest expenses are netted out from operating profit so that the calculation focuses on the ordinary returns of the assets and ignores how the assets are financed. Average asset levels vary across Australian industry. Service based businesses generally have very low asset levels while mining and manufacturing operations are more heavily based around capital equipment. This ratio depends on how the assets themselves are valued.

Net profit margin: is operating profit or loss, plus interest costs, minus tax payable, divided by sales. It relates after tax profit to sales revenue. Profit margins vary across industries with many large retail operations having high volume, low margin business, whereas other industries may operate with lower volumes and higher margins.

Gearing: is total liabilities divided by shareholder funds. It reflects the borrowing position of the firm compared to its equity. In general, higher levels of gearing lead to higher interest cost deductions and lower tax paid. In essence, some of the profit from the geared company or group is transferred to the lending entities.

Interest cover ratio: is operating profit or loss plus interest costs, divided by interest costs. This ratio shows the proportion of operating profit that is required to cover the business' interest expenses. Higher borrowings lead to greater interest expenses and so the ratio measures the capacity of a business to service the interest component of debt capital.

Effective tax rate: is the tax payable divided by the operating profit or loss. This ratio shows the proportion of a firm's operating profit that is paid in tax. It is important to note that there are numerous reconciliation items (capital gains, legislative concessions, losses etc.) that are applied to operating profit before tax is calculated. The use of these reconciliation items will affect the value of the ratio. All loss making companies have been excluded.

Table 6.6: LB&I companies: financial ratios by industry

Industry	Return on assets	Net profit margin	Gearing	Interest cover ratio	Effective rate of tax
	ratio	ratio	ratio	ratio	%
Primary production	0.02	0.03	1.76	0.78	21.06
Mining & petroleum	0.06	0.22	1.96	1.64	23.96
Manufacturing	0.06	0.09	1.84	2.78	20.20
Electricity, gas & water	0.07	0.26	2.36	1.57	6.96
Construction	0.06	0.05	4.77	2.68	11.86
Wholesale trade	0.06	0.03	2.30	1.99	29.35
Retail trade	0.07	0.02	2.21	1.93	24.80
Accommodation, cafes & restaurants	0.08	0.13	2.35	2.65	11.03
Transport & storage	0.06	0.10	2.23	2.78	21.39
Communication	0.03	0.05	1.67	1.72	32.43
Finance, insurance, real estate & business services[1]	0.07	3.02	3.33	1.80	9.21
Government, administration & defence	0.05	0.10	6.81	109.59	36.68
Health & community services	0.06	0.12	2.55	2.16	22.79
Cultural & recreational services	0.05	0.13	1.88	2.99	20.99
Personal & other services	0.04	0.10	1.02	3.24	25.12
Industry not stated	0.05	0.09	2.18	2.77	11.07
Total	**0.07**	**0.26**	**2.87**	**1.88**	**14.11**

1. Finance, insurance, real estate and business services is a very diversified sector. It is worth noting that the four major banks all have a higher effective rate of tax than the average.

Petroleum resource rent tax

LB&I also has responsibility for petroleum resource rent tax (PRRT). PRRT is imposed by the *Petroleum Resource Rent Tax Act 1987* on all offshore petroleum projects except the North West shelf. It is calculated at the rate of 40% of taxable profit, which is the excess of assessable receipts over deductible expenditure and transferred exploration expenditure. PRRT is paid to the Tax Office on a quarterly basis in October, January, April and July.

In 1997–98, 20 companies lodged PPRT returns. These companies had $3.6 billion in assessable receipts and claimed $2.7 billion in deductible expenditure. Transferred exploration expenditure was $122 million. Only six companies contributed to the taxable profit amount of $2.2 billion. The remaining companies contributed to total losses of $1.5 billion or broke even.

In the 1997–98 financial year, $907 million was raised in PPRT. This was a decrease from $1,308 million in 1996–97. However, the high amount in 1996–97 was due to a large one-off payment as a result of a dispute settlement between the Victorian gas utilities and their suppliers.

Detailed tables

The following detailed tables on clients of the LB&I business line can be found on this CD-ROM.

Companies

Companies

Client population
Industry
Company income
Company expenses
Net tax
Company balance dates
Return form compilation
Detailed tables

Companies

For taxation purposes, companies include all bodies or associations, corporate or unincorporated, excluding partnerships. For tax purposes some corporate unit trusts and public trading trusts are treated as if they were companies.

Depending on the level of their previous year's tax liability, companies pay income tax either in instalments, some of which are paid during that income year, or in a single lump sum paid during the subsequent year.

The Tax Office operates varied tax payment schemes based upon a company's likely tax liabilities. Likely tax is an estimate provided by the company of the tax payable for the current year. If no estimate of likely tax is provided, then likely tax refers to the amount of tax payable in the most recent prior year for which a return has been lodged.

Company income tax collected in a financial year does not necessarily reflect income tax assessments for an income year. Approximately 2% of companies have substituted accounting periods, where the Commissioner has granted permission for the preparation of their tax return on the basis of an income year ending other than on 30 June. In addition, most companies pay the majority of their tax after their income year has ended. The due date for tax payments depends on the estimate of tax the company is liable to pay and on the operation of any substituted accounting periods.

Within the Tax Office, companies are clients of either the small business income (SBI) business line or the large business & international (LB&I) business line. Companies which have total income less than $10 million and which are not public companies are classified as small businesses and are administered by the SBI business line. Public companies operating as bodies corporate are also clients of the SBI business line. Companies which have total income greater than $10 million, or which are public companies not operating as bodies corporate, are classified as large businesses and are administered by the LB&I business line. Companies that are subsidiaries of a large business are also clients of the LB&I business line.

The statistics in this chapter are compiled from company tax returns for the 1996–97 income year, that were processed before 30 September 1998.

Definitions

Private company: one in which the shares are not quoted on a stock exchange, or which is capable of being controlled by relatively few shareholders. A subsidiary of a public company cannot be classified as a private company.

Non-profit company: a company which is not carried on for the purpose of profit or gain to its individual members. The terms of the memorandum or articles of association, rules or other documents constituting the company or governing its activities, must prohibit it from making any distribution in money, property or otherwise to its members.

Cooperative company: one in which the number of shares held by one person is limited, the shares are not quoted on a stock exchange and the business is carried on primarily for:

- acquiring commodities or animals for disposal or distribution among shareholders;
- acquiring commodities or animals from shareholders for disposal or distribution;
- storage, marketing, packaging or processing of commodities of shareholders;
- rendering of services to shareholders; or
- obtaining funds from shareholders for the purpose of making loans to shareholders to enable them to acquire land or building to be used for a residence and/or business.

Registered organisation: can include an association registered under a law of a state or territory as a trade union; a society registered under a law of a state or territory providing for the registration of friendly or benefit societies; or an association of employees that is an organisation within the meaning of the *Workplace Relations Act 1996*.

Pooled development fund (PDF): a company that is registered as a PDF and provides development capital to small and medium companies.

Public company: a company listed on a stock exchange. This may include certain cooperative companies; non-profit companies; government bodies established for public purposes; companies controlled by governments; public company subsidiaries; registered friendly societies, trade unions and employee associations; friendly society dispensaries; corporate limited partnerships; and mutual life assurance companies.

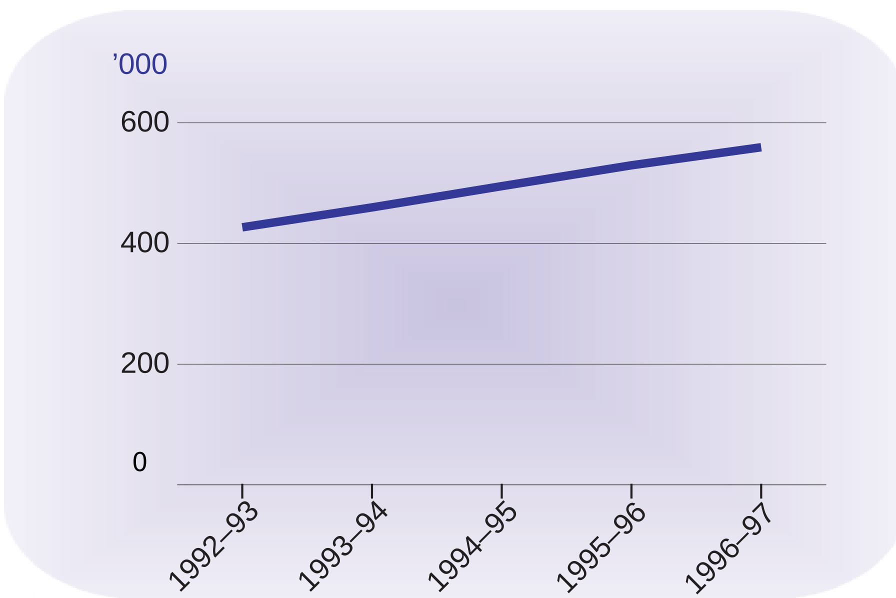
Client population

In 1996–97, 559,520 companies lodged returns in Australia. This was an increase of 31% from 426,800 in 1992–93. Most companies (95%) are clients of the SBI business line, but they are only liable for 28% of the total company tax payable. The number of companies lodging returns has been increasing steadily each year over the past five years.

This increase is due to new companies being formed, but is offset to some extent by companies that cease business. Between 1995–96 and 1996–97, there was an increase of 29,890 in the total number of companies lodging returns. In 1996–97, 42,410 new companies lodged returns, indicating that 12,520 companies either ceased business during the year or failed to lodge a return.

In 1996–97, 13,562 companies indicated they were ceasing business. Of these, 468 indicated they had bad debts totalling $37.6 million. In addition, 6,415 companies reported current liabilities worth more than a total of $1 billion, 1,691 reported trade creditors totalling $97.2 million and 853 reported trade debtors of $116.5 million.

Figure 7.1: Company tax returns lodged



Industry

For those companies where industry information was provided on the tax return, the finance, insurance, real estate and business services industries accounted for half of all companies. It was the most common industry for both LB&I and SBI companies, accounting for 52% and 50% respectively. This may be due to the high number of management companies included in this industry. For LB&I companies, it was followed by manufacturing (12%) and wholesale trade (11%). For SBI companies, it was followed by construction (10%) and retail trade (9%). 7% of all companies did not state an industry on their tax return.

Table 7.1: Companies by industry

Industry	LB&I	SBI	Total
	no.	no.	no.
Finance, insurance, real estate & business services	14 031	244 461	258 492
Construction	816	47 476	48 292
Retail trade	1 523	43 938	45 461
Manufacturing	3 112	37 149	40 261
Wholesale trade	2 839	25 170	28 009
Health & community services	239	19 994	20 233
Transport & storage	859	18 974	19 833
Primary production	440	14 326	14 766
Personal & other services	266	12 827	13 093
Accommodation, cafes & restaurants	636	10 409	11 045
Cultural & recreational services	455	9 793	10 248
Mining	1 313	2 141	3 454
Communication	118	2 307	2 425
Education	36	1 910	1 946
Electricity, gas & water	123	503	626
Government administration and defence	3	96	99
Not stated	2 169	39 068	41 237
Total	**28 978**	**530 542**	**559 520**

Company income

In 1996–97, total company gross income was $1,007.2 billion. Most of this was returned by LB&I companies ($799.9 billion). Company gross income has increased during the past five years, from $705.9 billion in 1992–93.

The majority of company income is earned from sales of goods and services. In 1996–97 this accounted for two-thirds of all company income. This was followed by gross interest (9%) and gross dividends (4%). Other income such as royalties, insurance recoveries, subsidies, employee contributions for fringe benefits tax and government assistance accounted for 19% of total company income.

The main source of income varied according to the size of the company. For example, sales of goods and services made up a greater proportion of income for SBI companies (69%) than for LB&I companies (65%).

Table 7.2: Company sources of income

Income	LB&I		SBI		Total	
	$ m	%	$ m	%	$ m	%
Sales of goods & services	519 121	64.9	143 299	69.2	662 420	65.8
Gross interest	89 163	11.1	3 125	1.5	92 288	9.2
Gross dividends	37 039	4.6	2 048	1.0	39 087	3.9
Gross rents	8 003	1.0	5 125	2.5	13 127	1.3
Partnership/trust income	4 602	0.6	5 309	2.6	9 911	1.0
Other income[1]	142 006	17.8	48 323	23.3	190 328	18.9
Total income	**799 933**	**100.0**	**207 229**	**100.0**	**1 007 162**	**100.0**

1. Includes all other income such as royalties, insurance recoveries, subsidies, employee contributions to fringe benefits tax and government assistance from all sources.

Company expenses

In 1996–97 company expenses totalled $916.5 billion, up from $644.8 billion in 1992–93. The most common expense faced by companies is cost of sales. Almost half (49%) of all company expenses are related to cost of sales. Interest expenses accounted for a further 9% of all company expenses.

As with income, the main expenses faced by companies varied according to the size of the company. Cost of sales made up a greater proportion of expenses for LB&I companies (49%) than for SBI companies (46%). Interest expenses made up a further 10% of LB&I company expenses. Among SBI companies, external labour costs such as consultants, contractors etc. accounted for 4% of expenses.

The differences in the income and expenditure of SBI and LB&I companies reflect factors such as economies of scale and industry concentration. For example, labour and superannuation costs represent a high portion of total costs for SBI companies, reflecting the larger numbers of SBI companies in labour-intensive industries such as the construction industry. Rent expenses also represent a higher portion of total SBI company costs, mostly due to large numbers of small wholesale and retail traders.In 1996–97, most companies (90%) were private companies. These private companies accounted for 40% of all company income tax. The greatest proportion of company net tax was payable by public companies. They were liable for $10.5 billion in net tax, accounting for 58% of all company income tax. However, these public companies only represented 3% of the entire company population.

Table 7.3: Types of company expenses

Type of expense	LB&I		SBI		Total	
	$ m	%	$ m	%	$ m	%
Cost of sales	357 486	49.5	89 562	46.2	447 049	48.8
Total interest expenses	73 214	10.1	4 997	2.6	78 210	8.5
External labour costs	12 230	1.7	8 641	4.5	20 871	2.3
Depreciation	17 792	2.5	4 276	2.2	22 068	2.4
Rents	7 850	1.1	5 064	2.6	12 914	1.4
Repairs & maintenance	8 974	1.2	1 944	1.0	10 919	1.2
Superannuation	4 392	0.6	3 816	2.0	8 208	0.9
Motor vehicle	2 505	0.3	3 370	1.7	5 876	0.6
Lease	4 027	0.6	1 359	0.7	5 386	0.6
Total royalty expenses	3 528	0.5	271	0.1	3 798	0.4
Bad debts	1 457	0.2	335	0.2	1 792	0.2
Other expenses	229 212	31.7	70 178	36.2	299 390	32.7
Total expenses	**722 668**	**100.0**	**193 814**	**100.0**	**916 482**	**100.0**

Net tax

Companies were liable for $18.2 billion in net tax in respect of the 1996–97 income year. This amount was generally paid in instalments in the 1996–97 and 1997–98 financial years. Taxes paid by companies represented 18% of total Tax Office collections in the 1996–97 financial year, and 17% in the 1997–98 financial year. The amount of company net tax payable has increased by $5.4 billion since 1992–93.

Among other factors, variations in the amount of tax paid have been caused by changing tax rates. In 1992–93 the company tax rate was 39%. In 1993–94 it dropped to 33% and in 1995–96 it rose to 36%.

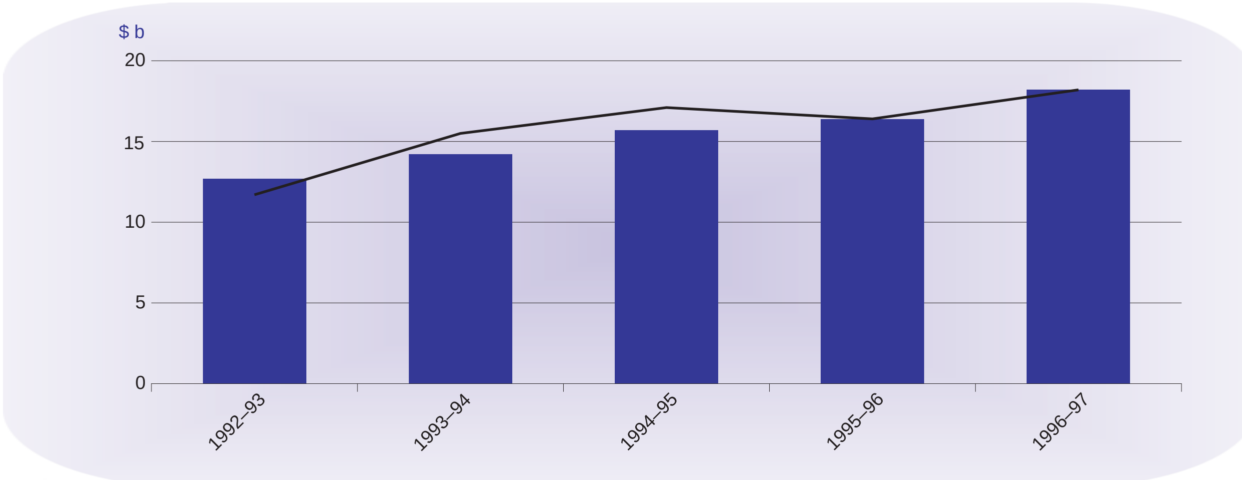
The bars on figure 7.2 show the actual amount of net tax payable. The line shows the amount that would have been payable if the 1995–96 and 1996–97 company tax rate of 36% had applied in each year. This comparison shows that the increase in the tax rate was one of the reasons for the increase in net tax applying to the 1995–96 income year. However, tax planning activities of many corporates pulled income into 1994–95 which increased net tax payable for that year, and pushed expenses into 1995–96 which decreased net tax payable. In 1996–97, the tax rate stayed the same so there was no rate related response effect. Therefore, part of the increase in net tax payable in 1996–97 can be explained by the 1995–96 net tax payable being lower than expected due to tax planning activities associated with the rate change.

In 1996–97, LB&I companies represented only 5% of all companies, yet these companies were liable for almost three-quarters (72%) of total company net tax.

The greatest proportion of company net tax is payable by companies in the finance, insurance, real estate and business services industry. These companies were liable for 45% of total company tax. LB&I companies were liable for 67% of the net tax in that industry, despite accounting for only 5% of all companies in that industry.
The majority of tax (65%) is payable by companies paying $1 million or more. These companies, however, only make up 0.3% of the total number of companies. As can be seen from figure 7.3, approximately 58% of companies are non-taxable. Non-taxable companies include non-trading companies, nil returns and companies operating at a loss.

The general company tax rate is 36%. The effective rate of tax, when defined as tax payable divided by operating profit/loss, is generally lower than the rate of tax. Expenses are removed from income to give operating profit or loss. Extraordinary items and reconciliation items are then applied to calculate taxable income. The 36% tax rate is then applied to taxable income, and credits and rebates applied, to give tax payable. In many cases the steps between operating profit and taxable income are significant, resulting in taxable income being quite different from operating profit.

Figure 7.2: Company net tax payable[1]



1. The bars refer to the actual amount of net tax payable. The line shows the amount that would have been payable if the current company tax rate of 36% had applied in all the years. Net tax differs from the amount published in Taxation Statistics 1994-95 due to subsequently amended tax returns

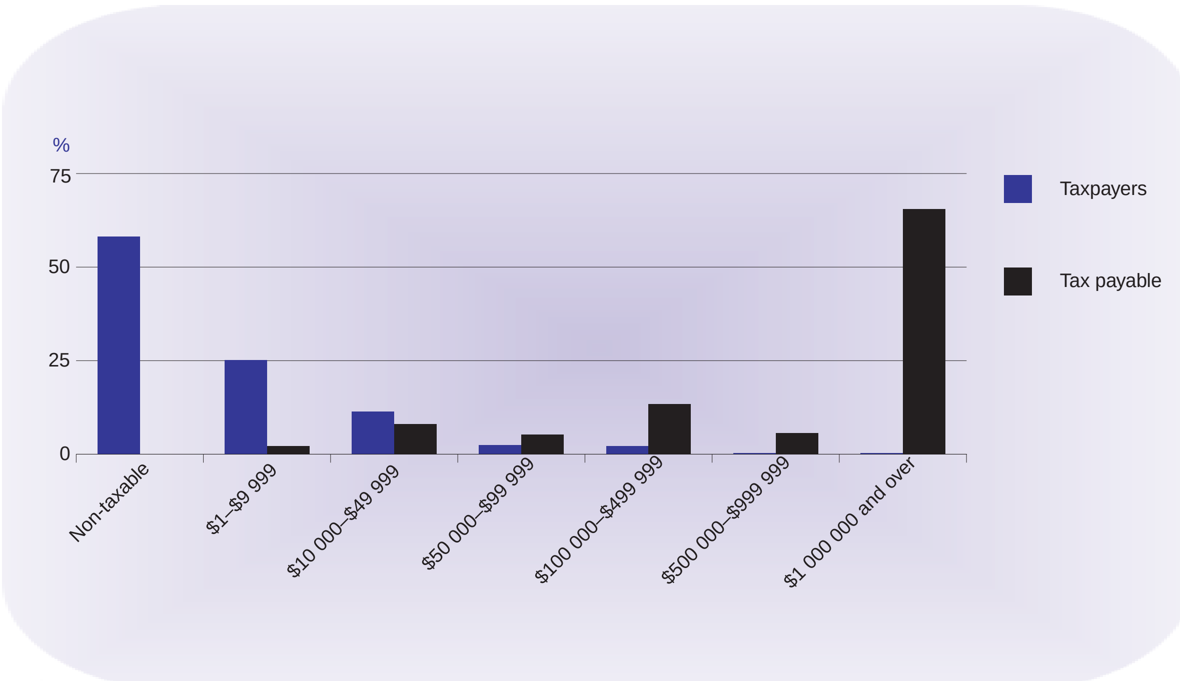
Table 7.4: Net tax payable by company type

Company type	Companies	Net tax	Average net tax
	no.	$ m	$
Private company	504 148	7 186.8	14 255
Strata title	23 626	5.5	231
Public company	18 111	10 462.5	577 687
Cooperative	8 962	140.3	15 655
Non-profit organisation	2 703	33.0	12 222
Registered organisation	1 255	282.1	224 782
Limited partnership	258	13.5	52 398
Corporate unit trust	66	0.1	1 949
Public trading trust	56	30.8	550 811
Pooled development fund	47	0.1	1 624
Not stated	288	5.6	19 489
Total	**559 520**	**18 160.4**	**32 457**

Table 7.5: Net tax payable by industry

Industry	LB&I	SBI	Total
	$ m	$ m	$ m
Finance, insurance, real estate and business services	5 261.3	2 641.3	7 902.6
Construction	141.1	317.0	458.1
Retail trade	454.0	326.6	780.6
Manufacturing	2 537.4	517.1	3 054.5
Wholesale trade	983.8	352.5	1 336.4
Health & community services	55.9	101.6	157.5
Transport & storage	356.6	124.3	480.9
Primary production	69.3	147.0	216.3
Personal & other services	33.1	73.2	106.3
Accommodation, cafes & restaurants	67.9	90.4	158.3
Cultural & recreational services	235.0	78.7	313.6
Mining	1 714.2	30.2	1 744.4
Communication	951.3	14.2	965.5
Electricity, gas & water	47.0	3.8	50.8
Education	4.2	12.1	16.3
Government, administration & defence	10.1	0.4	10.5
Industry not stated	202.7	205.1	407.8
Total	**13 124.9**	**5 035.5**	**18 160.4**

Figure 7.3 Companies by grade of net tax payable



Company balance dates

The standard financial year runs from July 1 to June 30. However, the Tax Office allows some companies to operate their income tax year in line with a different financial year. This usually occurs if a company operating in Australia is owned by a multinational and the holding company wishes to have all members of the corporate group operate under the the same financial year. For example, the traditional financial year in the US follows the calendar year while the British financial year ends in March.

The majority of companies (98%) balance their financial statements on 30 June. Yet these companies remit only 60% of all company income tax. The remaining 2% of companies balance at various times during the year and remit 40% of company income tax.

Companies in the mining industry are most likely to have a substituted accounting period (12%). This was followed by those in the electricity, gas and water industry (8%) and the wholesale trade industry (5%).

A table of company balance dates is included on the CD-ROM attached to this publication.

Return form compilation

Company returns were lodged either electronically or in paper form. A facsimile of the return form can be found in the appendix. Statistics for most items shown on the return form are included in the tables.

Company rates

The following rates of tax are applicable to company income in the 1996–97 income year.

Private Companies (other than life companies, pooled development funds, and registered organisations) — Rate: 36%

Public Companies (other than life companies, pooled development funds, and registered organisations) — Rate: 36%

Note: Public includes non-profit companies which are not liable to tax unless taxable income exceeds $416. Where taxable income is $1,204 or less, the tax payable is limited to 55% of the excess of taxable income over $416. Friendly society dispensaries are non-profit companies.

Life Assurance Companies

- taxable income component relating to policies held by complying superannuation funds or in respect of roll-over annuities — Rate: 15%
- taxable income component relating to policies held by non-complying superannuation funds — Rate: 47%
- taxable income component relating to policies for accident and disability insurance and residual life assurance — Rate: 39%
- taxable income component relating to non-statutory fund income:
  - – mutual life companies — Rate: 39%
  - – other life companies — Rate: 36%

Registered Organisations

- taxable income component relating to policies held by complying superannuation funds or in respect of roll-over annuities — Rate: 15%
- taxable income component relating to policies held by non-complying superannuation funds — Rate: 47%
- taxable income component relating to eligible insurance business — Rate: 33%

Pooled development funds (PDFs)

- companies that are PDFs during the whole year of income:
  - (i) on SME income component — Rate: 15%
  - (ii) on unregulated investment component — Rate: 25%
- companies that become PDFs during the income year and remain PDFs at the end of the income year:
  - (i) on SME income component — Rate: 15%
  - (ii) on that part of the taxable income which does not exceed the PDF component — Rate: 25%
  - (iii) on that part of the taxable income which exceeds the PDF component — Rate: 36%

Credit Unions

- small credit unions (notional taxable income less than $50,000) — Rate: nil
- medium credit unions (notional taxable income more than $49,999) — Rate: 30%
- large credit unions (notional taxable income more than $149,999) — Rate: 20%

Detailed tables

The following detailed tables on companies can be found on this CD-ROM.

Table 1: Company type: by grade of net tax

Table 2: All items: by grade of taxable income and company type

Table 3: All items: by grade of total income and company type

Table 4: All items: by industry

Table 5: Broad industry: by grade of total income

Table 6: Number of companies: by business line, industry and company type

Table 7: Selected items: 1987–88 to 1996–97

Table 8: Taxable companies: percentage distribution by grade of taxable income

Table 9: Income tax paid: by balance date

Funds

Funds

Funds

Funds include superannuation funds, approved deposit funds (ADF), pooled superannuation trusts (PST) and retirement savings accounts (RSA).

Within the Tax Office, funds with total investments of less than $50 million are classified as small business and are clients of the small business income (SBI) business line. Funds with total investments of more than $50 million and/or taxable income of more than $10 million are classified as large business and are clients of the large business & international (LB&I) business line.

In addition, the superannuation business line is responsible for administering the superannuation guarantee, reasonable benefit limits, and the superannuation holding account reserve system. It also advises on superannuation policy and implementing community education programs.

The statistics in this chapter are from tax returns for the 1996–97 income year that were processed before 11 September 1998.

The income year statistics contained in this publication differ from financial year figures published elsewhere due to the timing of the tax payment system. Tax collections in a particular financial year include payments relating to various income years from funds with different balance dates and classifications. For example, tax payments for large June balancing funds for the 1996–97 income year were due on 1 March 1997, 1 June 1997, 1 September 1997 and 1 December 1997. Therefore, the first two instalments were paid in the 1996–97 financial year and the third and final instalments were paid in the 1997–98 financial year.

Definitions box

June balancers: are entities that balance their books for the year on 30 June. Some funds (less than 1%) have substituted accounting periods, where the Commissioner has granted permission for the preparation of their tax return on the basis of an income year ending other than on 30 June.

The dates for payment of tax and lodgement of returns are determined by a fund's classification and accounting period. Funds are classified according to their likely tax. Likely tax is an estimate of current year tax payable which may be provided by the fund. If there is no estimate made, the fund will be classified by a previous or earlier year's tax amount.

Likely tax	Classification
Less than $8,000	Small
Between $8,000 and $300,000	Medium
More than $300,000	Large

Superannuation funds: are trust funds established to provide benefits to members or their dependants upon retirement, resignation, sickness, death or disablement of the member. Government schemes may be funded from consolidated revenue without a separate trust existing.

Approved deposit funds: are indefinitely continuing funds which are maintained by approved trustees solely for the receipt of eligible termination payments (ETPs). If a person retires early, is retrenched or changes jobs, the ETP can be rolled over into the ADF, where it can remain until that person reaches the age of 65.

Pooled superannuation trusts: are unit trusts which operate as investment vehicles for unrelated superannuation funds, ADFs or other PSTs, with the assets usually invested by a professional fund manager. It is a form of unit trust in which the value of the investments of an individual superannuation fund is determined by the value and number of its units in the trust. PSTs can only accept deposits from complying superannuation funds, ADFs and other PSTs.

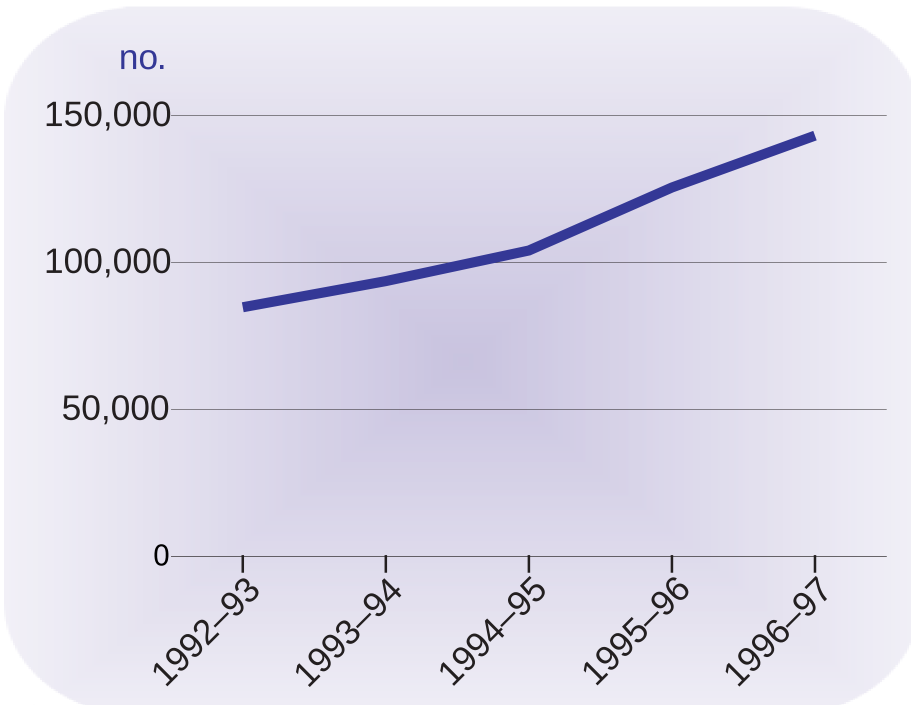
Retirement savings accounts: are designed to operate as an alternative to traditional superannuation. They are intended to be low cost and low risk. RSAs are offered by banks, building societies, credit unions and life insurance companies. They provide superannuation without using a trust structure. RSAs must be capital guaranteed, fully portable, and owned and controlled by the member. They are especially suited to those with small amounts of superannuation.

Defined benefit funds: are superannuation funds where the formula for calculating the retirement benefit (and possibly other benefits) is specified in terms of years of service with the employer (or years of membership with the fund) and average salary level over the last few years prior to retirement. The employer-sponsor of a defined benefit fund carries the investment risk (the defined benefits that the members of the fund receive do not depend on the investment performance of the fund). If investment returns are low, the employer may need to increase company contributions to enable the fund to meet its required payouts.

Client population

The number of funds has increased during the past five years, from 84,790 in 1992–93 to 143,222 in 1996–97. Almost all funds (99.8%) are superannuation funds.

Figure 8.1: Fund tax returns lodged



Fund income

In 1996–97, almost half (48%) of all fund income was derived from employer contributions. This was followed by capital gains (15%) and gross interest (10%). Only 4% of income came from employee contributions.

There is a noticeable difference in the source of income of large and small funds. SBI funds received the majority (57%) of their income from employer contributions, while LB&I funds received less than half (46%) of their income from this source. LB&I funds received a significantly higher portion of their income from investment earnings in the form of capital gains, dividends and net foreign income than did SBI funds.

One factor that may have contributed to this difference is that a greater proportion of LB&I funds are defined benefit schemes, and during 1996–97 several of these were on a contribution holiday. A contribution holiday is where an actuarial valuation of a defined benefit fund has revealed a surplus and the employer-sponsor decides to make a reduced or nil contribution to the fund. This reduces the proportion of total fund income which comes from employer contributions.

Table 8.1: Sources of income

Source of income	**LB&I**		**SBI**		**Total**	
	$ m	%	$ m	%	$ m	%
Employer contributions	11 526	45.7	4 686	57.0	16 212	48.5
Total capital gains	4 219	16.7	690	8.4	4 909	14.7
Gross interest	2 437	9.7	808	9.8	3 245	9.7
Gross dividends	2 535	10.1	575	7.0	3 110	9.3
Distributions from partnerships and trusts	792	3.1	476	5.8	1 268	3.8
Employee contributions	785	3.1	406	4.9	1 191	3.6
Net foreign income	912	3.6	37	0.4	950	2.8
Gross rents	536	2.1	302	3.7	838	2.5
Other income[1]	1 470	5.8	247	3.0	1 717	5.1
Total income	**25 212**	**100.0**	**8 226**	**100.0**	**33 438**	**100.0**

1. Includes net excessive private company dividends and net previous income.

Deductions

In 1996–97, the main type of deduction claimed by funds was the transfer of taxable contributions (37%). This was followed by exempt current pension income (19%). More than one-third (34%) were classified as other deductions, which includes interest expenses and exempt income.

There were differences in the types of deductions claimed by large and small funds. 41% of all deductions claimed by LB&I funds were for the transfer of taxable contributions to an organisation in which they have an investment, compared to only 11% of deductions claimed by SBI funds. Almost one-fifth (19%) of deductions claimed by LB&I funds were for exempt current pension income, compared to only 13% of deductions claimed by SBI funds.

Table 8.2: Types of deductions

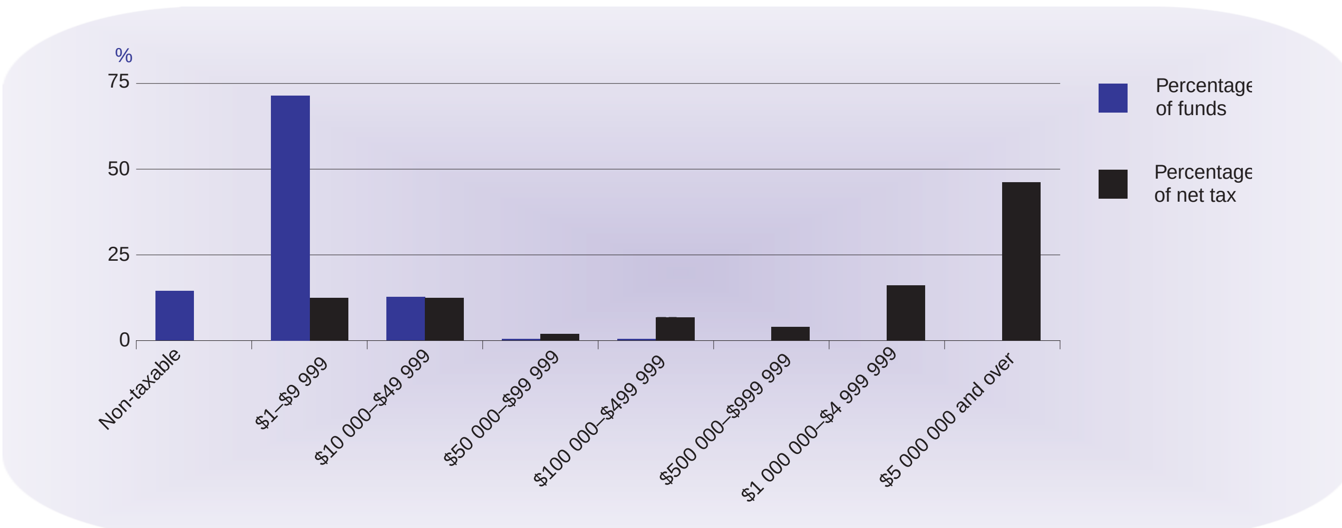
Type of deduction	LB&I		SBI		Total	
	$ m	%	$ m	%	$ m	%
Employer contributions	11 526	45.7	4 686	57.0	16 212	48.5
Transfers of taxable contributions	3 654	40.6	153	11.4	3 806	36.8
Exempt current pension income	1 736	19.3	173	12.9	1 909	18.5
Total capital losses of current year applied	701	7.8	265	19.8	966	9.3
Losses recouped	64	0.7	32	2.4	96	0.9
Net capital losses of prior years applied	46	0.5	27	2.0	72	0.7
Total salary and wage expenses	18	0.2	3	0.2	20	0.2
Other deductions[1]	2 788	30.9	689	51.4	3 477	33.6
Total deductions	**9 005**	**100.0**	**1 341**	**100.0**	**10 346**	**100.0**

1. Includes interest expenses — Australia; interest expenses — overseas; and exempt S290A income.

Table 8.3: Net tax by type of fund

Type of fund	LB&I		SBI		Total	
	Funds	Net tax	Funds	Net tax	Funds	Net tax
	no.	$ m	no.	$ m	no.	$ m
Excluded	57	48	130 791	608	130 848	656
Employer sponsored or corporate	210	501	4 443	203	4 653	704
Public offer or retail	153	252	443	36	596	288
Industry or award	47	375	367	18	414	393
Public sector fund	32	295	33	5	65	301
Other	43	147	6 603	35	6 646	182
Total	**542**	**1 618**	**142 680**	**905**	**143 222**	**2 523**

Figure 8.3: Percentage of taxpayers and net tax



Net tax

In 1996–97 funds were liable for $2.5 billion in tax. The amount of net tax has varied significantly during the past five years. In 1992–93 funds were liable for $1.2 billion in net tax. This increased in 1993–94, mainly due to strong growth in capital gains income. Tax paid then declined in 1994–95, before increasing again over the past two years.

The higher net tax in the 1995–96 income year is due to higher earnings on assets generally, resulting in a growth in capital gains, gross interest and other net income. The 16% increase in 1996–97 was partly due to businesses with payrolls of less than $1 million per annum increasing their superannuation guarantee payments to 6%, up from 5% in 1995–96. This brings all businesses into line, as those with payrolls above $1 million per annum have been paying this level since 1995–96. Companies will remain at this level for the 1997–98 income year but will increase their payments to 7% in 1998–99.

Most funds (99.6%) are clients of the SBI business line. However SBI funds are liable for only 36% of total fund net tax. The majority of funds (91%) are excluded funds (regulated funds with less than five members).

Among LB&I funds, the greatest proportion (39%) are employer-sponsored or corporate funds. They are liable for the largest amount of tax for LB&I funds, accounting for 31% of the total.

Excluded funds pay 26% of the total tax paid by funds. Employer-sponsored or corporate funds pay the largest amount of tax, accounting for 28% of the tax paid by funds in 1996–97.

Figure 8.2: Net tax payable

Excluded funds

An excluded fund is a superannuation fund with less than five members. They are commonly referred to as ‘do-it-yourself’ or ‘self-managed’ funds. They are subject to less onerous prudential requirements under the *Superannuation Industry (Supervision) Act 1993 (SIS)* on the basis that members can protect their own interests. This is because members are normally related (commonly husband and wife teams or business partners) and normally act as trustees. Even though excluded funds may have up to four members, most (85%) have only one or two members.

In 1996–97 there were 130,848 excluded funds. They represented assets under management of $38 billion. While excluded funds represent 91% of total funds, they only make up 14% of total industry assets and less than 2% of total fund members.

With numbers presently growing at around 25,000 per year, excluded funds make up one of the fastest growing sectors of the industry. This reflects:

- the ability for members in excluded funds to choose, manage and control their own investments;
- disenchantment by some with the perceived high fees and poor returns or service from larger funds; and
- the reduced requirements on excluded funds under the *SIS Act*.

In May 1998, the government announced that from 1 July 1999 excluded funds will be regulated by the Tax Office instead of the Australian Prudential Regulation Authority. From that time they will be known as ‘self-managed superannuation funds’. This will require all members to be relatives or business partners and all members to be trustees or directors of the trustee company.

Superannuation fund rates

Complying superannuation fund

The rates of tax payable by a trustee on the taxable income of a complying superannuation fund,
regulated under the Superannuation Industry (Superannuation) Act 1992, are:

(a) on income, including realised capital gains and taxable contributions received — Rate: 15%

(b) on non-arm's length income and private company dividends — Rate: 47%

Non-complying superannuation fund

The rate of tax payable by a trustee of a non-complying superannuation fund in respect of the taxable income of the fund is 47%. The income on which the fund is assessed includes realised capital gains and tax deductible contributions received.

Complying approved deposit fund

The rates of tax payable by a trustee of an approved deposit fund, certified by APRA as complying with approved deposit fund conditions, in respect of the taxable income of the fund are:

(a) on income, including realised capital gains and taxable contributions — Rate: 15%

(b) on non-arm's length income and private company dividends — Rate: 47%

Non-complying approved deposit fund

The rate of tax payable by a trustee of a non-complying approved deposit fund in respect of the taxable income of the fund is 47%. The fund being assessed on income, including realised capital gains and certain roll-over deposits.

Pooled superannuation trust

The rates of tax payable by a trustee of a pooled superannuation trust, certified by APRA as complying with conditions for pooled superannuation trusts, in respect of the taxable income of the trust are:

(a) on income, including realised capital gains and any liability attached to taxable contributions transferred from investment funds — Rate: 15%

(b) on non-arm's length income and private company dividends — Rate: 47%

Life assurance companies

In 1996–97, there were 86 life assurance companies and other registered organisations. These companies had a complying superannuation business income of $7 billion dollars, with gross taxable contributions totalling $3.1 billion.

Detailed statistics for life assurance companies and registered organisations are not included in this chapter. The income and expenses for the superannuation fund business returned by life assurance companies and registered organisations are included in their company tax return and detailed statistics are not recorded separately.

Return form compilation

Superannuation fund returns are lodged either electronically or in paper form. A copy of the form is in the appendix. Statistics for most of the items shown on the return form are included in the tables on the CD-ROM.

Detailed tables

The following detailed tables on funds can be found on this CD-ROM:

Table 1: All items: by grade of total income

Table 2: All items by grade of taxable income

Table 3: Selected items: by industry

Table 4: Selected items: by business line

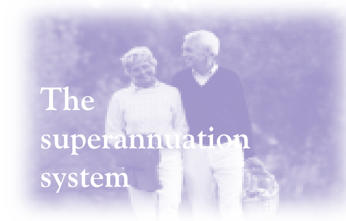
Table 5: Selected items: 1989–90 to 1996–97

Table 6: Superannuation fund net tax: by balance date

The superannuation system

The superannuation system

What is the superannuation guarantee?
Why superannuation coverage is compulsory
Superannuation guarantee revenue received
Superannuation guarantee vouchers
Superannuation contribution surcharge
Superannuation holding accounts reserve
Member protection
Lost members register
Reasonable benefit limits
Government initiatives



The superannuation system

Superannuation is a long term savings arrangement which operates primarily to provide income for retirement. It works by accumulating small amounts of money saved regularly by members into a larger pool. The money is then put into diversified investments including shares, property, government and semi-government securities and cash deposits. Over time the contributions build into a larger sum that earns investment income. Upon retirement this money is paid either as a lump sum or a superannuation pension.

Superannuation is different from other forms of saving in that:

- it is associated with a person's employment;
- it accumulates in a specialised investment tool commonly referred to as a fund;
- the government treats superannuation monies under a different tax regime than normal income; and
- the member generally cannot access the money invested until they reach retirement.

Contributions may be made by employees and employers to either a superannuation fund or a retirement savings account (RSA). Funds and RSAs must follow government regulations which ensure that all superannuation money is well managed.

Superannuation helps the Australian economy by increasing national savings with the majority of assets invested in Australia. This pool of savings provides the capital needed to create jobs, services and infrastructure. Long term economic advantages include a reduced need to rely on overseas borrowing and greater stability for Australia's economic and social future through a decreasing reliance on the government aged pension.

Definitions

Employer superannuation contributions: are surchargeable regardless of whether the employer claims a tax deduction for those contributions.

Personal deductible superannuation contributions: only that part of a member's contributions that are allowed as a tax deduction are surchargeable. For example, a taxpayer making a contribution of $7000 would be entitled to claim a tax deduction of $6000 based on a deduction of $3000 plus 75% of the amount in excess of $3000.

Employer ETPs: the post 20 August 1996 component rolled over on or after 1 July 1997 is a surchargeable amount.

Adjusted taxable income: refers to taxable income, less superannuation fund and rollover fund ETPs, less lump-sum payments for unused long service leave and annual leave received when a person finishes employment because of bona fide redundancy or under an approved early retirement scheme or because of invalidity, plus surchargeable contributions.

What is the superannuation guarantee?

Compulsory superannuation took effect on 1 July 1992 with the enactment of the *Superannuation Guarantee (Administration) Act 1992*. Under the superannuation guarantee, employers are required to make minimum levels of superannuation contributions to a complying fund or RSA provider for employees.

In 1997–98, the minimum level of superannuation support payable was 6% of each employee's earnings. The percentage increased to 7% from 1 July 1998 and will increase gradually to 9% by 1 July 2002. Employers who do not make sufficient contributions are required to pay the superannuation guarantee charge applicable.

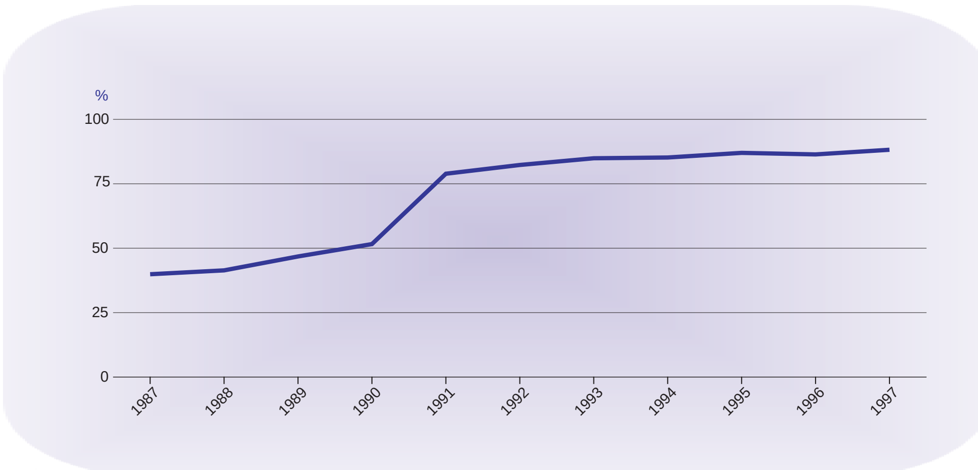
The superannuation guarantee charge consists of the total amount of all employee shortfalls of contributions, an interest component and an administrative fee. The charge is collected by the Tax Office. Unlike superannuation contributions, the charge is not tax deductible.

Prior to the introduction of the superannuation guarantee in 1992, the only mandatory superannuation requirement was award based superannuation of 3%. The introduction of both award based superannuation and the superannuation guarantee had an almost immediate effect on the levels of superannuation coverage. In 1988, 41% of employees had superannuation coverage. By 1991, after the introduction of mandatory award based superannuation, 79% of employees had superannuation coverage. By 1997, five years after the introduction of the superannuation guarantee, 88% of employees had superannuation coverage.

Some people are exempt from being covered by the superannuation guarantee. They include :

- those who earn less than $450 per month;
- those under the age of 18 and working for not more than 30 hours a week;
- those aged 70 years and over; and
- those performing work of a domestic or private nature for not more than 30 hours a week.

Figure 9.1: Employee superannuation coverage



Source: ABS, Weekly Earnings of employees (Distribution), Cat No. 6310.0; Cat No. 6325.0; Employee Benefits Australia Cat No. 6334.0

Why superannuation coverage is compulsory

There were a number of social and economic variables which led to the introduction of the superannuation guarantee. Providing an aged pension to the retired population relies on raising revenue to match and support the levels of retirees receiving pensions. By 2051, it is projected that 24% of the Australian population will be aged 65 and over, compared to 12% in 1997.

This increase in the proportion of the population who are aged 65 and over is occurring for several reasons. People are living longer and spending longer in retirement. In 1996, life expectancy at birth was 75 years for males and 81 years for females, an increase of 20 and 22 years respectively since 1901–10. Also, people are having fewer children. At the same time immigration has reduced and emigration has increased. As a result, the potential pool of people available to work compared to those retired is decreasing.

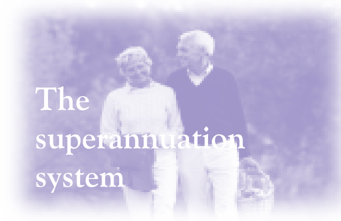
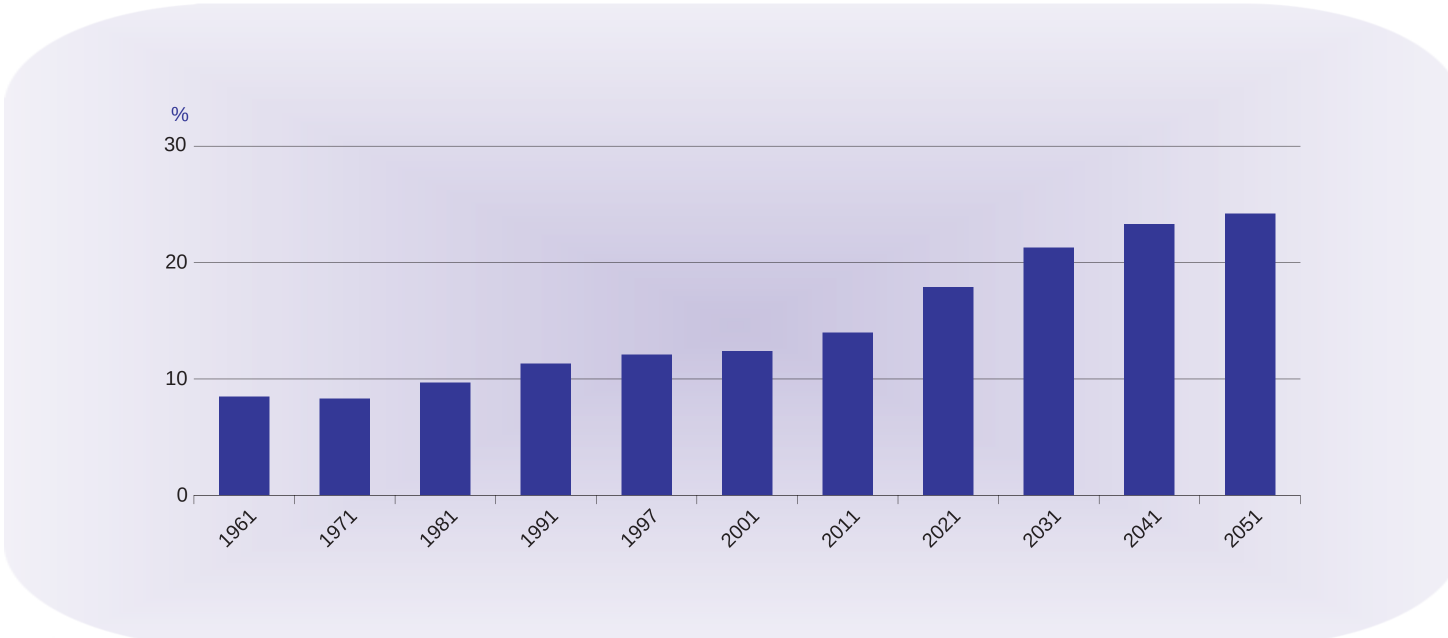
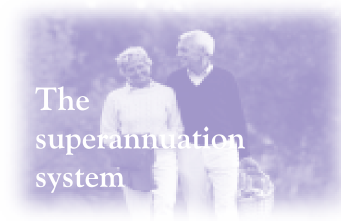


Figure 9.2: Proportion of the population aged 65 and over



Source: ABS, Estimated Resident Population by Sex and Age: States and Territories of Australia, Cat No 3201.0; ABS Population Projections, 1997 to 2051, Cat No 3222.0, Series II

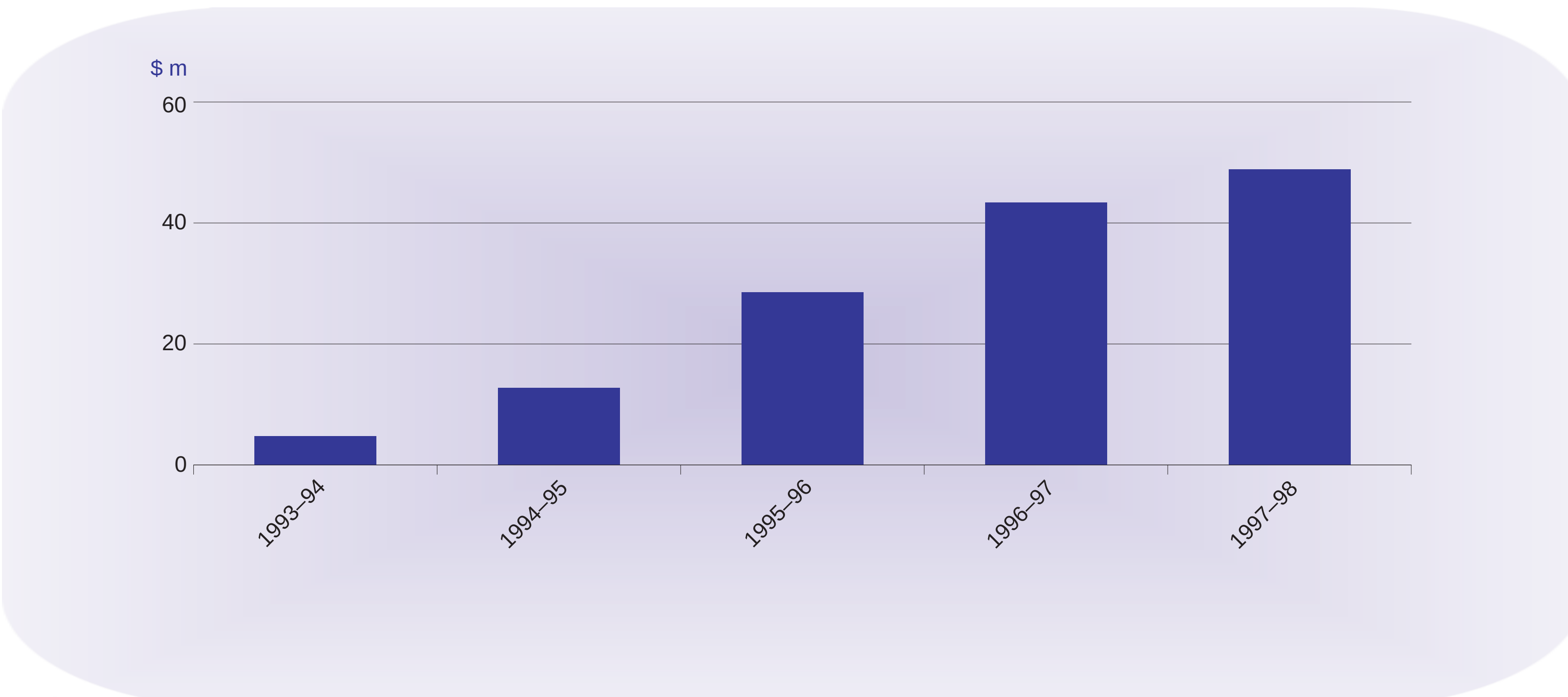


Superannuation guarantee revenue received

In 1997–98, $48.8 million was received through the superannuation guarantee. There have been large increases in the amount of superannuation guarantee collected during the past five years. Between 1993–94 and 1994–95, the total amount collected increased by 165%. Between 1996–97 and 1997–98, the rate of growth slowed to 13%. This decline in the rate collected is partly due to increased compliance by employers, i.e. they pay their contributions to a fund instead of the Tax Office.

In 1997–98, the value of superannuation guarantee assessments was $62.4 million. The majority ($47.2 million) was made up of the shortfall in superannuation contributions made by employers. A further $8 million was interest and $3.9 million was administration charges.

Figure 9.3: Superannuation guarantee revenue received



Superannuation guarantee vouchers

Employees with money in a Tax Office superannuation guarantee account (paid in by their employer) are sent a notification which advises them that the money is available for placement by them into a superannuation fund or retirement savings account. Attached to the notice is a voucher which the employee presents to the superannuation fund or retirement savings account provider. The fund then forwards the voucher to the Tax Office seeking payment of the superannuation contributions.

To 2 July 1998, there were 386,923 superannuation guarantee vouchers issued. These vouchers were worth $112 million. Less than half (44%) of these vouchers have been claimed. However, those claimed were worth $61 million, accounting for 55% of the total value of vouchers issued.

Table 9.1: Total superannuation guarantee vouchers issued

	Vouchers	Value
	no.	$ m
Vouchers issued and claimed	172 057	61.4
Vouchers issued and not yet claimed	214 866	50.2
Total	**386 923**	**111.6**

Table 9.2: Age of unclaimed superannuation guarantee vouchers

Age of voucher (from date of issue)	Vouchers	Value
	no.	$ m
Less than 1 month	12 760	4.0
1 month to less than 6 months	38 066	10.2
6 months to less than 12 months	62 849	15.3
12 months to less than 24 months	53 083	11.5
24 months or more	48 108	9.2
Total	**214 866**	**50.2**

Of all unclaimed superannuation guarantee vouchers, 47% were more than 12 months old. However, they only accounted for 41% of the total value of unclaimed vouchers. Almost one-quarter (24%) of unclaimed vouchers were less than six months old. However, they made up 28% of the total value of unclaimed vouchers.

Superannuation contribution surcharge

The superannuation contribution surcharge was introduced as part of the August 1996 Budget. It is a charge on the superannuation contributions of high income earners. The *Superannuation Contributions Tax (Assessment and Collection) Act 1997* provides for the assessment and collection of the surcharge.

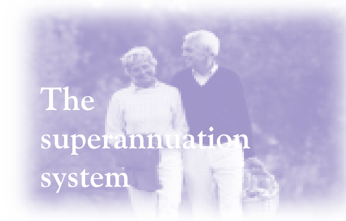
Surchargeable contributions are employer superannuation contributions, personal deductible superannuation contributions, and certain parts of employer eligible termination payments (ETPs) received after 20 August 1996.

For the period 20 August 1996 to 30 June 1997, the surcharge was phased in for the adjusted taxable income range of $70,000 to $85,000. For the 1997–98 financial year, the adjusted taxable income range was $73,220 to $88,910. The rate of surcharge payable increases by 1% for every $1,046 of income up to a maximum of 15% for incomes of $88,910 and over. In 1997–98 the Tax Office collected surcharge amounts of $346 million.

A person’s tax file number (TFN) is used to link surchargeable contributions with that person’s taxable income from a tax return. If a person does not quote a TFN to the provider and the Tax Office cannot identify the person to link surchargeable contributions with taxable income:

- no surcharge will be applied if the person’s account with the superannuation provider was opened before 7 May 1997 and the person’s surchargeable contributions were less than $2,000; or
- the full 15% surcharge will be applied if the person’s account with the superannuation provider was opened before 7 May 1997 and the person’s surchargeable contributions were more than $2,000; or
- the full 15% surcharge will be applied if the person’s account with the superannuation provider was opened on or after 7 May 1997, irrespective of the level of the contributions.

There has been a combined effort between the Tax Office, industry and professional bodies to emphasise the importance of quoting TFNs to providers. If members quote their TFNs to their providers, they not only avoid the potential of having surcharge applied to their contributions, but can also keep better track of their superannuation contributions throughout their working life.



Superannuation holding accounts reserve

The superannuation holding accounts reserve (SHAR) was established in 1995. Its purpose is to collect small superannuation contributions from employers who are unable to find a superannuation fund willing to accept small superannuation contributions on behalf of employees.

SHAR was introduced because a large number of superannuation accounts with small balances were being created. This was mainly due to changing employment patterns. Small superannuation amounts are particularly prevalent in industries which employ a high number of casual workers — such as the tourism and agriculture industries. Women in particular are likely to be holders of small amounts.

SHAR is distinct from a superannuation fund as it is a holding mechanism which allows individuals to consolidate their small employer contributions. Once an individual's funds are consolidated and large enough to be self sufficient, i.e. not eroded by administration costs, they should be transferred to a superannuation fund or RSA provider. SHAR has also encouraged superannuation funds to provide low cost accounts for those contributors with small amounts.

Payments can be made from SHAR to a superannuation fund or RSA nominated by the employee, or directly to the employee or their legal representative, in cases of disability, death, aged 65 or over, or non-residency. Account balances of less than $500 can be cashed on request of the member. If the account is more than $500 then the member must rollover their benefit.

At 2 July 1998, the balance of SHAR was $17.1 million. Most of this was held in individual accounts ($16.5 million).

At 2 July 1998, there were 105,930 individual SHAR accounts. The average value of these accounts was $156 each. There were also 27,857 accounts with a zero balance. These are accounts that have been redeemed, i.e. the money has been paid out or gone to a fund, but the record is still maintained for legislative reasons.

Table 9.3: Individual account balances held in SHAR

Individual account balance	Number	Total value	Average value
	no.	$	$
$0	27 857	0	0
$1–$100	38 667	1 938 644	50
$101–$500	31 033	6 975 143	225
$501–$1 000	6 170	4 239 270	687
More than $1 000	2 203	3 357 737	1 524
Total	**105 930**	**16 510 794**	**156**

Member protection

Member protection prevents small amounts (less than $1,000) from being eroded where interest earned on the account is less than administration fees and charges. Funds are required to protect balances of less than $1,000 which contain some compulsory employer contributions by limiting fees and charges to ensure they do not exceed investment earnings on a member's balance.

Funds are unable to retain superannuation amounts under $1,000 without protecting them. If they do retain and protect small balances in this way, they are able to continue to accept superannuation guarantee and award contributions.

If a fund does not wish to apply member protection, it must ensure that the benefits of members with less than $1,000 in their account are transferred into an eligible rollover fund (ERF) or a fund that does offer member protection. It must also advise members of the fund or ERF selected.

An ERF is a special rollover fund which must provide member protection to all members, regardless of account balances. An ERF must accept benefits paid from a superannuation fund or ADF, superannuation guarantee shortfall amounts and amounts paid from SHAR. The ERF must notify the Tax Office twice a year of all 'lost' benefits rolled over to them so that the Tax Office can include the information in the lost members register.

Lost members register

The lost members register (LMR) is a centralised register of superannuation fund members with whom funds have lost contact. It aims to make information available to enable people to find out if they have lost benefits and locate the fund which holds the benefit. Superannuation funds are required to provide this information annually to the Tax Office.

Legislation passed in 1997 allows the extended use of TFNs for superannuation purposes. This will assist members and the industry to keep track of superannuation entitlements more efficiently.

The LMR is a database with search facilities that allows operators to undertake searches on behalf of clients. If a match is found the operator will inform the client of the fund or RSA where the account is located and will encourage the client to contact the fund or RSA directly.

At 2 July 1998 there were 2.2 million lost members. Most (98%) of these were Australian residents. The total value of these accounts was $1.8 billion which represents $822 per individual account.

Of those lost members identified by state, New South Wales had the greatest proportion (35%), followed by Queensland (25%) and Victoria (18%).

Reasonable benefit limits

Reasonable benefit limits (RBLs) are the maximum amount of retirement and termination of employment benefits that a person can receive over their lifetime at concessional rates of tax. Benefits taken in excess of a person's RBL do not receive tax concessions.

There are two types of RBLs — those which apply to people receiving mostly lump sums and those that apply to people receiving mostly pensions. RBLs are indexed annually according to the movement in average weekly ordinary time earnings published by the Australian Bureau of Statistics. For the financial year ended 30 June 1998, the lump sum RBL was $454,718 and the pension RBL was $909,435. Higher (transitional) RBLs may apply in some circumstances.

The main objective of the RBL regime is to determine whether benefits (superannuation pensions, annuities, eligible termination payments) are within or in excess of a person's RBL. If a lump sum benefit is in excess of the person's RBL, tax is payable on the amount of the excess at the highest personal income tax rate (currently 47% plus Medicare levy). If the whole or part of a superannuation pension or an annuity is in excess of the person's RBL, it will be subject to a reduced pension rebate.

In 1997–98, 403,993 individuals received ETPs. These payments were worth $8.2 billion. The average ETP was $20,198. A further 43,291 clients received benefits in the form of pensions or annuities.

During the past year, the number of individuals receiving ETPs has declined by 39% while the number of clients receiving pensions or annuities has risen by 11%.

Table 9.4: Eligible termination payments received

		1993–94	1994–95	1995–96	1996–97	1997–98
No. of individuals receiving ETPs	no.	347 463	688 782	665 371	662 270	403 993
No. of ETPs paid	no.	566 722	907 314	870 727	885 846	536 175
Total value of ETPs[1]	$ b	12.5	9.4	8.5	10.2	8.2
Value per person	$	36 206	13 612	12 853	15 425	20 198
No. of clients receiving benefits in the form of pensions or annuities	no.	46 703	24 030	24 012	38 980	43 291

1. Does not include ETPs below $5,000.

Government initiatives

In the 1997–98 Budget, the government announced it would legislate to provide employees with greater choice about the superannuation fund or RSA which receives their compulsory employer superannuation contributions. This will commence for new employees from 1 July 1999, and for existing employees from 1 July 2000. The initiative will give employees greater ownership and control over their superannuation savings, and aims to increase competition and performance in the superannuation industry.

Employers will be able to meet their obligations under this new legislation by:

- offering employees the choice of four funds/RSA providers;
- negotiating a workplace agreement which includes superannuation arrangements; or
- providing ‘unlimited’ employee choice.

Employers must give new employees 28 days in which to choose from among four (or more) complying funds or RSA providers that they nominate. The employer must include at least one RSA, one public offer fund and, where available, a relevant industry fund and an in-house superannuation fund. Where a new employee does not nominate a fund or RSA within the required time, contributions will be made to a fund or RSA chosen by the employer.

The employer will be bound by the employee’s decision, and will be liable to pay the superannuation guarantee charge for non-compliance. In circumstances where superannuation contributions are paid, but not to the correct fund, the superannuation guarantee charge penalty will be 25% of the shortfall and interest component, plus all of the administration component, that would apply if the contribution had been paid. The penalty will not apply where the employee’s choice cannot be implemented, for example where the fund nominated by the employee ceases to be a complying fund or is unable to accept contributions.

Partnerships and Trusts

Partnerships and trusts

Partnerships and trusts

What are partnerships?

For tax purposes, a partnership is an association of people who carry on business as partners, or who receive income jointly.

Partners contribute their time, talents and/or capital towards the partnership and, in return, share in both the profits and responsibilities.

Partnerships are not treated as a separate legal entity for tax purposes. The partners have to declare, and are assessed on, their share of the net profit of the partnership. The partners are entitled to deduct their share of the partnership loss for tax purposes. They then pay tax, taking that profit or loss into account, at their individual rates of tax.

Partnerships cannot pay ‘salary and wages’ to partners. All income partners receive from a partnership is treated as business income and may attract provisional tax.

Partnerships require a separate partnership tax file number and must lodge a partnership income tax return at the end of the financial year.

Any entitlement to profits or losses, other than in equal shares, should be documented in the partnership agreement. Net profits or losses from renting out co-owned property should generally be shared according to the respective legal interests of the owners in the property.

Partners will generally share in the income of the partnership and will generally be liable for the debts of the partnership. If a partnership asset is sold, any capital gains or losses relating to a partner’s share in the asset must be disclosed in the individual partner’s tax return, and not the partnership tax return.

Most partnerships are clients of the small business income (SBI) business line. Partnerships with income of more than $10 million are clients of the large business and international (LB&I) business line. Where a partnership has no business income, they are clients of the individuals non-business (INB) business line.

The statistics in this chapter are compiled from partnership and trust tax returns for the 1996–97 income year.

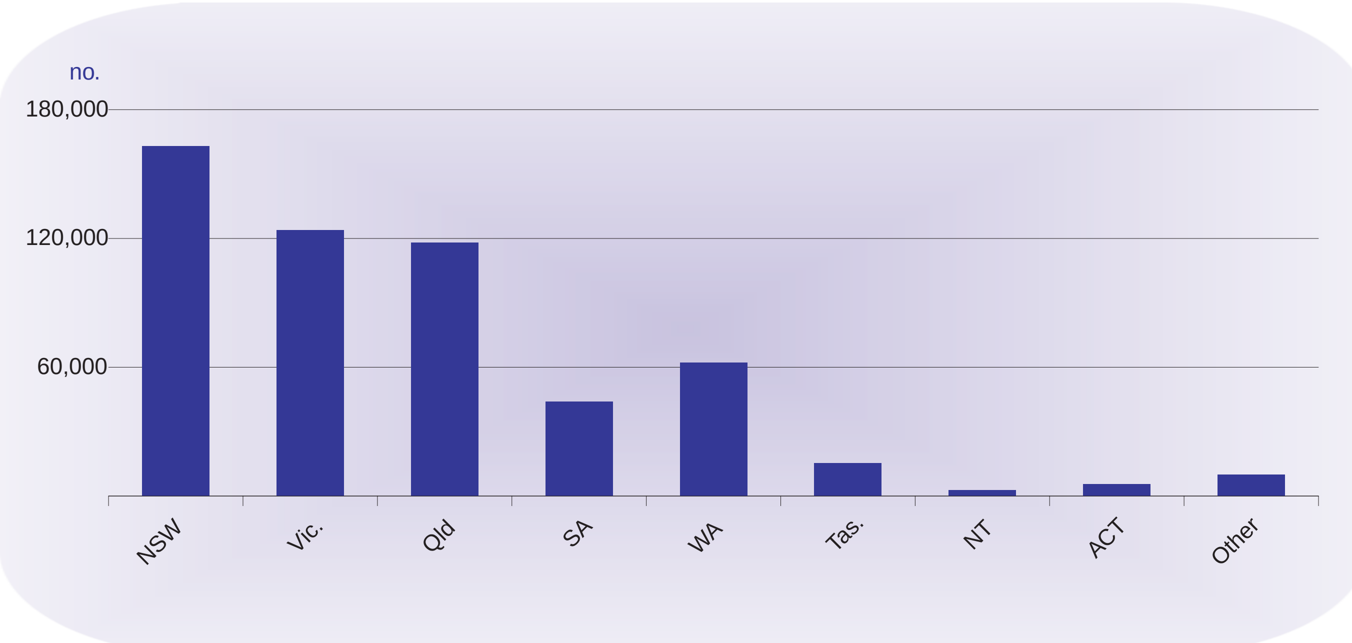
Client population

In 1996–97, 544,116 partnerships lodged returns in Australia. This was down from 558,033 in 1993–94.

The largest proportion of partnerships (30%) was in NSW. This was followed by Victoria (23%) and Queensland (22%) The proportions of partnerships basically reflect the geographic distribution of the Australian population, with the higher numbers of partnerships being in states with larger populations.

Figure 10.1: Number of partnerships

Figure 10.2: Partnerships by state



Industry

In 1996–97, of those partnerships where industry was known, the largest proportion were in the primary production industry (27%). This was followed by the construction industry (16%) and the retail trade industry (14%). Industry was not stated for 5% of partnerships.

The type of industry varies according to the size of the partnership. For example, among partnerships that were clients of the INB business line, the majority (89%) were in the property industry. Among partnerships that were clients of the SBI business line, the largest proportion (28%) were in the primary production industry. For partnerships that were clients of the LB&I business line, the largest proportion (65%) were in the finance, insurance, real estate and business services industry. This reflects the main industries for each business line generally.

The proportion of partnerships in each industry also varies according to their location. For example, the largest proportion of partnerships in the property and construction industries were in New South Wales, while the largest proportion of partnerships in the manufacturing industry were in Victoria. These patterns reflect the main type of business carried out in each state. For example, the high number of partnerships in the construction and property industries in NSW may be linked to the construction work currently underway for the 2000 Olympics.

Table 10.1: Partnerships by industry

Industry[1]	Partnerships	
	no.	%
Primary production	140 216	27.0
Construction	80 750	15.6
Retail trade	71 734	13.8
Finance, insurance, real estate & business services	52 575	10.1
Property	48 993	9.4
Manufacturing	29 859	5.8
Transport & storage	26 135	5.0
Personal & other services	18 456	3.6
Accommodation, cafes & restaurants	15 399	3.0
Wholesale trade	13 051	2.5
Cultural & recreational services	8 302	1.6
Health & community services	5 709	1.1
Communication	4 092	0.8
Education	1 850	0.4
Mining	1 053	0.2
Electricity, gas & water	377	0.1
Government administration & defence	38	0.0
Total industry stated	**518 589**	**100.0**
Industry not stated	25 527	
Total	**544 116**	

1. In 1996–97, the industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, this data should not be used for time series analysis as the industry groups are not comparable.

Partnership income and expenses

In 1996–97, partnerships had a total business income of around $90.3 billion. Most partnerships (91%) were clients of the SBI business line.

Among those partnerships with business income, less than 0.1% were clients of the LB&I business line. Yet they accounted for 11% of total business income.

The total expenses claimed by partnerships was $77 billion. One of the main partnership expenses was cost of sales. In 1996–97, around 39% of all expenses were linked to cost of sales. This was followed by depreciation and external labour costs (4% each). By business line, the main types of expenses did not differ dramatically.

Table 10.2: Income and expense items

Selected items		LB&I	SBI	INB	Total
Partnerships	no.	242	493 435	50 439	544 116
Total assets	no.	179	345 670	n.a.	345 849
	$ m	6 259	74 093	n.a.	80 353
Total liabilities	no.	161	269 589	n.a.	269 750
	$ m	3 403	42 058	n.a.	45 461
Net rent	no.	20	66 000	40 281	106 301
	$ m	25	502	626	1 153
Gross interest	no.	95	178 125	22 824	201 044
	$ m	42	458	163	662
Gross dividends	no.	6	36 179	7 983	44 168
	$ m	19	83	39	142
Total expenses	no.	223	473 344	n.a.	473 568
	$ m	6 782	70 560	n.a.	77 343
Net business income	no.	228	471 758	n.a	471 986
	$ m	3 096	9 807	n.a	12 903
Total business income	**no.**	**221**	**464 288**	**n.a**	**464 509**
	$ m	**9 964**	**80 315**	**n.a**	**90 279**

Table 10.3: Partnership expenses

Type of expense	LB&I	SBI	Total
	$ m	$ m	$ m
Cost of sales	1 765	28 306	30 070
Total depreciation	145	3 219	3 364
External labour costs	324	2 588	2 912
Interest paid	168	2 674	2 841
Rent paid	133	2 134	2 266
Motor vehicle expenses	8	2 232	2 240
Repairs	31	1 814	1 845
Lease payments	43	660	703
Superannuation deductions	33	355	388
Bad debts	23	94	117
Royalties	21	65	86
Other expenses	4 089	26 420	30 510
Total	**6 782**	**70 560**	**77 342**

What are trusts?

A trust, in simple terms, exists where a person, the trustee, is under an obligation to hold property for the benefit of other people, known as ‘beneficiaries’. This obligation usually arises under express terms of a trust but may also be imposed by court order or declaration, or by the operation of law. Although the trustee holds the legal title to the property, they must deal with it in accordance with the terms of the trust for the benefit of the beneficiaries.

A beneficiary is a person for whom the property is held by the trustee or who falls within the class of persons who may benefit in respect of the trust property at the discretion of the trustee or another person. Beneficiaries can include public and charitable institutions and the beneficiaries of a discretionary trust can include people not yet in existence, e.g. those not yet born.

A trust estate, for income tax purposes, includes the assets which are vested in, and under the control of, the trustee and are subject to the trust obligations. An annual return must be lodged for a trust, regardless of the amount of net income of the trust and even if the trust makes a loss for tax purposes.

Types of trusts

Fixed trusts: where people have vested and indefeasible interests in all of the income and capital of the trust at all times during the income year.

Hybrid trust: not a fixed trust, but one in which people might have vested and indefeasible interests in some of the income or capital of the trust during the income year.

Discretionary trusts: neither a fixed trust or hybrid trust, but one in which people benefit from the income or capital of the trust during the income year at someone else’s discretion (usually the trustee’s).

Fixed unit trusts: a fixed trust in which interests in the income and capital of the trust are represented by units.

Public unit trusts: a fixed unit trust in which, at all times during the income year, more than 20 individuals hold vested and indefeasible interest, directly or indirectly, to at least 75% of the income of the trust, and more than 20 individuals hold vested and indefeasible interest, directly or indirectly, to at least 75% of the capital of the trust. An individual and his or her relatives and/or nominees are counted as a single individual for this purpose.

Public unit trusts — listed: a public unit trust in which any of its units were listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.

Public unit trust — unlisted: a public unit trust in which none of its units were listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year

A trust is not a separate taxable entity. As much as possible, beneficiaries who are entitled to income of the trust are assessed in relation to that income. The trustee is generally only assessed in respect of certain kinds of beneficiaries (such as non-residents and those under a legal disability), and where there is some part of the net income of the trust for tax purposes which is not assessable to a beneficiary. The net income of the trust is generally assessable to the trustee or the beneficiaries in the income year it is derived by the trust.

Most trusts are clients of the SBI business line. Trusts with income of more than $10 million are clients of the LB&I business line, while a trust with no business income is a client of the INB business line.

Client population

In 1996–97, 427,431 trusts lodged returns in Australia, up from 331,388 in 1993–94.

The growth of trusts in recent years is likely to be related to the growth in the number of taxpayers who are seeking to hold and organise their assets and businesses in private discretionary trusts. Discretionary trusts enable the people who control the trust to achieve flexibility in relation to the distribution of income or assets of the trust. The current system for the taxation of trusts does not assess the trust on distributed net income and instead assesses the beneficiaries on the share of net income which they are entitled to each year.

The preference for a discretionary trust over a company structure or vice versa is dependent upon a range of factors including establishment and operating costs, the taxation treatment of income from companies compared with income from discretionary trusts, the capital gains tax treatment of shares compared with interest in a discretionary trust, and the relative level of the company tax rate.

The number of trusts varies by geographic location. In 1996–97, the greatest proportion of trusts were in Victoria (31%). This was followed by NSW (21%). The relatively high number of trusts in Victoria is a reflection of a long standing preference for using trusts for commercial activities, rather than other types of entities, in that state.

Figure 10.3: Number of trusts

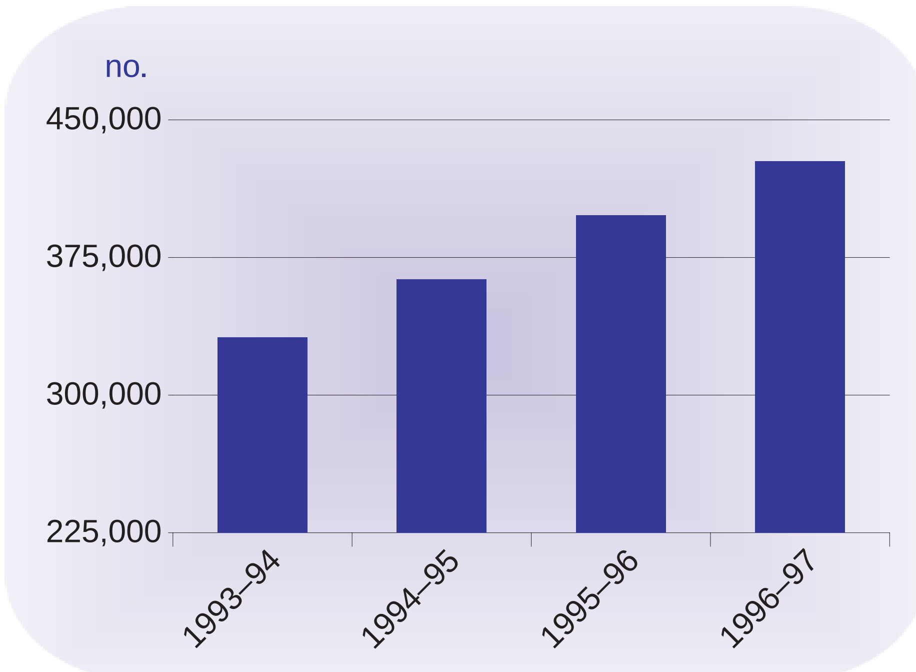
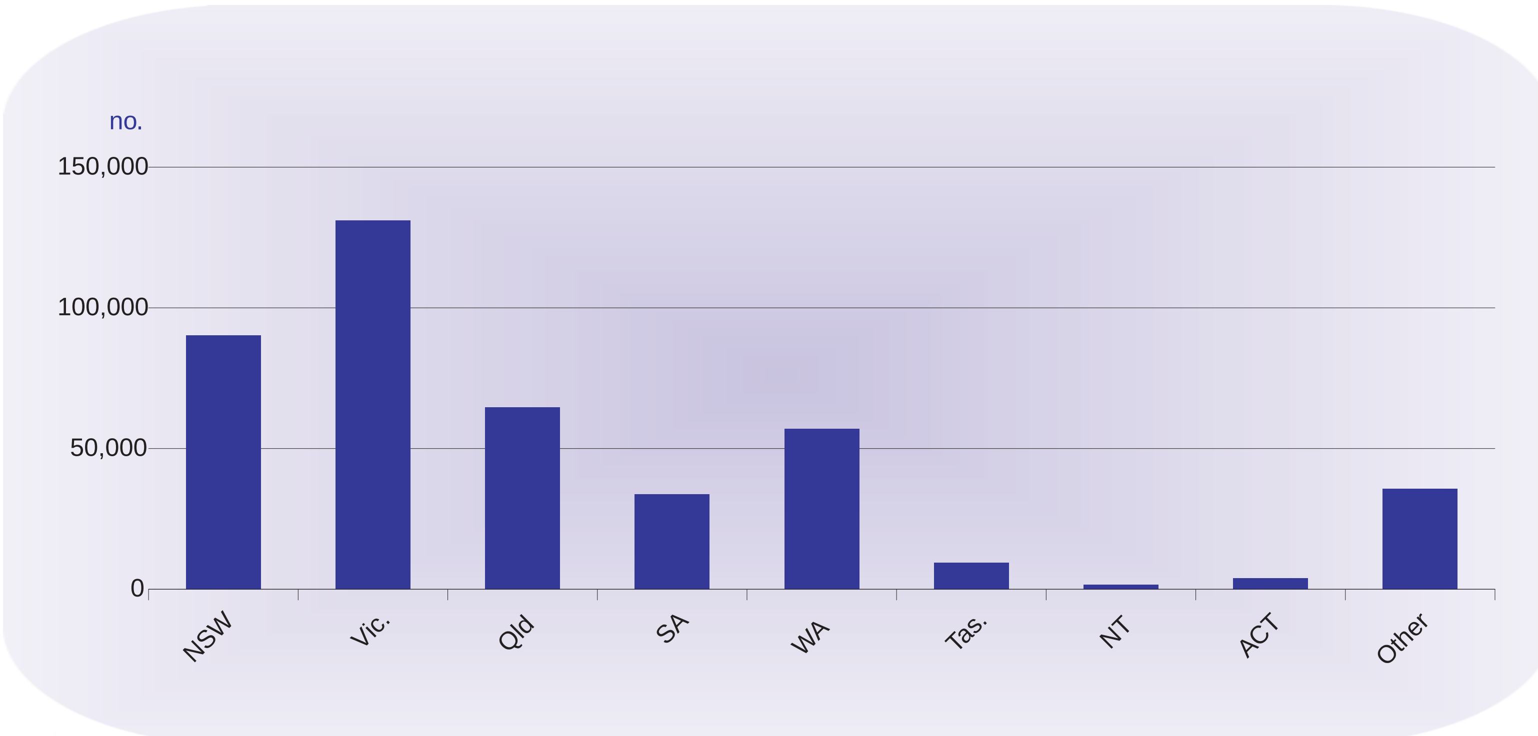


Figure 10.4: Trusts by state



Industry

In 1996–97, of those trusts where industry was known, the largest proportion were in the property industry (42%). This was followed by the finance, insurance, real estate and business services industry (27%). 14% of trusts did not state their industry.

As with partnerships, the proportion of trusts in each industry varies according to their size. Among trusts that were clients of the INB business line, the majority were in the property industry (80%). Among trusts that were clients of the SBI business line, the greatest proportion (38%) were in the finance, insurance, real estate and business services industry. Of trusts that were clients of the LB&I business line, the greatest proportion (18%) were in the retail trade industry.

The proportion of trusts in each industry varies according to their location. For example, the largest proportion of trusts in the mining industry (40%) were in Western Australia, reflecting the high incidence of mining activity in that state.

Table 10.4: Trusts by industry

Industry[1]	Trusts	
	no.	%
Property	154 097	42.0
Finance, insurance, real estate & business services	99 687	27.2
Retail trade	24 500	6.7
Primary production	18 941	5.2
Construction	18 146	5.0
Manufacturing	11 660	3.2
Wholesale trade	8 230	2.2
Accommodation, cafes & restaurants	6 964	1.9
Health & community services	6 740	1.8
Transport & storage	6 619	1.8
Personal & other services	5 994	1.6
Cultural & recreational services	2 810	0.8
Communication	841	0.2
Mining	605	0.2
Education	530	0.1
Electricity, gas & water	151	0.0
Government administration & defence	32	0.0
Total industry stated	**366 547**	**100.0**
Industry not stated	60 884	
Total	**427 431**	

In 1996–97, the industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, this data should not be used for time series analysis as the industry groups are not comparable

The growth of trusts and companies

While the numbers of trusts and companies have both risen over time, the annual growth rates have increased for trusts and decreased for companies. The annual growth of companies has decreased from 8% in 1992–93 to 6% in 1996–97. At the same time the annual growth rate for trusts increased from 2% to almost 10% in 1995–96, although it decreased to 7% in 1996–97.

The increase in the number of companies may be a reflection of the general growth in the economy, together with an increasing awareness of the advantages of incorporation. Companies are also used as vehicles to obtain superannuation benefits for sole traders. As the majority of trusts have a company as a trustee, the strong growth in trusts has contributed to increased numbers of trustee companies.

The relative rates of growth of trusts and companies could reflect the different tax treatment of trusts and companies. Companies have a flat rate of tax with no tax-free threshold, while trusts are untaxed on any net income of the trust to which beneficiaries are presently entitled. Shareholders of a company are assessable on any dividends which are paid or credited to them, subject to the operation of the imputation system. Beneficiaries are assessed on any net income related to the trust to which they are presently entitled.

Table 10.5: Growth in numbers of trusts and companies

Year	Companies		Trusts	
	no.	% growth	no.	% growth
1991–92	394 447		300 320	
1992–93	426 800	8.2	305 954	1.9
1993–94	459 797	7.7	331 388	8.3
1994–95	494 967	7.6	363 198	9.6
1995–96	529 630	7.0	398 010	9.6
1996–97	559 520	5.6	427 431	7.3

Trust income and expenses

In 1996–97, trusts had a total business income of around $130 billion. The majority of trusts (60%) were clients of the SBI business line.

Of those trusts reporting business income, less than 1% were clients of the LB&I business line. However, these trusts accounted for 23% of total business income.

Trusts with no business income and less than $10 million total income fall under the INB business line, however they can earn interest.

INB trusts earned gross interest of $1,362 million, which was 34% of gross interest earned by all trusts.

In 1996–97, the total expenses of trusts were $120 billion. The main expense for trusts was cost of sales. More than half (52%) of all expenses were linked to cost of sales. This was followed by external labour costs and rent paid (3% each). The main types of expenses did not vary according to business line.

Table 10.6: Income and expenses items

Selected items		LB&I	SBI	INB	Total
Trusts	no.	1702	258 221	167 508	427 431
Total assets	no.	1 312	216 668	n.a.	218 001
	$ m	45 365	125 293	n.a.	170 659
Total liabilities	no.	12 95	208 724	n.a.	210 019
	$ m	14 336	99 074	n.a.	113 410
Net rent	no.	313	45 740	46 560	92 613
	$ m	466	940	1 191	2 597
Gross interest	no.	1 021	113 642	108 074	222 737
	$ m	1 349	1 312	1 362	4 024
Gross dividends	no.	317	43 379	53 348	97 044
	$ m	862	805	1 041	2 708
Total expenses	no.	1 387	188 973	n.a.	190 361
	$ m	27 415	93 397	n.a.	120 812
Net business income	no.	1 394	189 469	n.a.	190 863
	$ m	2 790	5 813	n.a.	8 603
Total business income	**no.**	**1 374**	**179 798**	**n.a.**	**181 172**
	$ m	**30 237**	**99 632**	**n.a.**	**129 869**

Table 10.7: Trusts expenses

Type of expense	LB&I	SBI	Total
	$ m	$ m	$ m
Cost of sales	17 850	45 088	62 938
External labour costs	513	2 862	3 375
Interest paid	503	2 533	3 037
Rent paid	437	2 659	3 095
Total depreciation	342	2 219	2 561
Superannuation deductions	206	1 894	2 099
Motor vehicle expenses	126	1 258	1 384
Repairs	158	1 171	1 329
Lease payments	121	704	825
Bad debts	58	140	198
Royalties	66	114	180
Other expenses	7 036	32 755	39 790
Total	**27 415**	**93 397**	**120 812**

Trust loss provisions

New provisions were enacted during 1997–98 which affect the deductibility by trusts of losses and certain debt deductions. These provisions are contained in Schedule 2F of the *Income Tax Assessment Act 1936* (ITAA 1936).

The new law requires trusts (other than family trusts and other kinds of excepted trusts such as complying superannuation funds, approved deposit funds and pooled superannuation trusts) to satisfy certain tests relating to ownership or control of the trust before debt deductions and prior and current year losses can be deducted. The new law also contains an income injection test which will prevent a trust from using a deduction for losses or other amounts where the trust enters into certain kinds of schemes to shelter assessable income from tax.

Trusts that elect to be family trusts are subject to concessional treatment. Generally, they do not have to satisfy the tests relating to ownership and control. However, the rules dealing with income injection schemes will apply to a family trust if income is injected into the trust by people outside the family group (as defined in the legislation).

Subject to certain transitional arrangements, the measures apply from 9 May 1995. The debt deduction provisions apply from 20 August 1996. Provisions preventing the transfer of the tax benefit of quarantined foreign losses apply from 2 October 1997.

Return form compilation

Partnership and trust returns were lodged either electronically or in paper form. A facsimile of the return form can be found in the appendix. Statistics for most items shown on the return form are included in the tables.

Detailed tables

The following detailed tables on partnerships and trusts can be found on this CD-ROM:

Partnerships:

Table 1: All items: by grade of net Australian income

Table 2: All items: by broad industry

Table 3: Selected items: by business line

Trusts:

Table 1: All items: by grade of net Australian income

Table 2: All items: by broad industry

Table 3: Selected items: by business line


Fringe Benefits Tax

Fringe benefits tax

Client population
Revenue raised
Benefits
Industry
Employee contributions
Tax agents analysis
FBT initiatives
Return form compilation
Detailed tables

Fringe benefits tax

Fringe benefits tax (FBT) is a tax on fringe benefits provided in place of, or in addition to, salary or wages. FBT is payable by employers and is assessed on the value of the fringe benefits provided to employees or their associates.

FBT was introduced on 1 July 1986 to improve the fairness of the tax system. It was designed to overcome deficiencies in the income tax law which allowed fringe benefits to be, in effect, a form of tax free income. The *Fringe Benefits Tax Assessment Act 1986*, as well as other related acts, are the legal basis for FBT.

Employees do not pay income tax on the fringe benefits they receive, and generally the cost of providing fringe benefits may be claimed by employers as an income tax deduction. Whether a particular employer has a liability, and the amount of that liability, depends on factors such as whether the employer is exempt or rebatable, the type of benefit provided, and its value. FBT paid in respect of fringe benefits provided after 1 April 1994 may also be an allowable income tax deduction.

FBT is payable on the following types of benefits:

- cars which are provided by employers to employees and which are available for private use by the employee;
- car parking provided by or paid for by the employer, or car parking expenses reimbursed by the employer;
- loans to employees, at low interest rates or free of interest;
- waiver of a debt owed by an employee;
- reimbursement or payment of non-business expenses of employees;
- residential accommodation provided for employees;
- remote area housing and travel benefits;
- living-away-from-home payments or benefits;
- board meals;
- discounted or free goods and other property provided to employees;
- discounted air travel for employees in the airline or travel industry;

- the provision or reimbursement of entertainment or related expenses by an employer to employees; and
- other benefits such as the provision of services and rights to use property.

FBT is an annual tax calculated independently of income. Employers are required to declare the total taxable value of the fringe benefits provided to employees, and FBT is payable on their grossed-up value. This ensures that the benefits are taxed on the same basis as salary and wages. Under the grossing-up rules, introduced on 1 April 1994, the taxable value is increased by:

1 / (1 – FBT rate)

The FBT rate applicable for the year 1 April 1997 to 31 March 1998, was 48.5%. Grossing-up effectively increased the amount against which the FBT rate was applied by 94.2%.

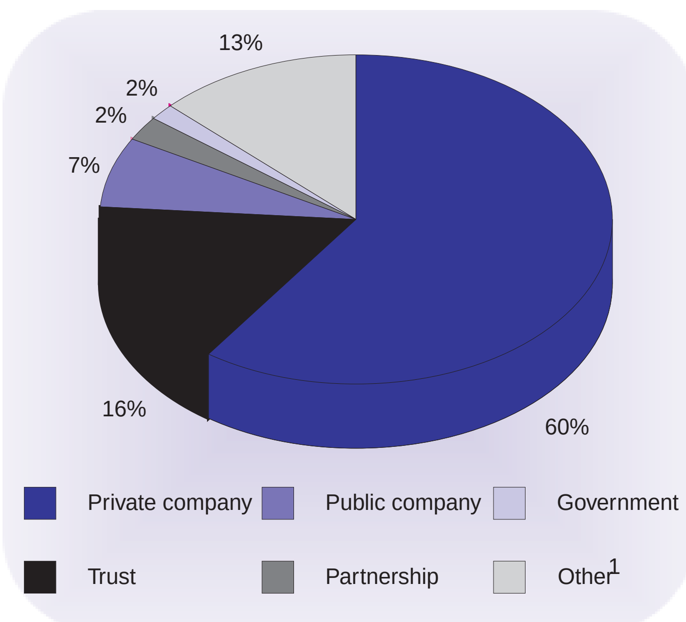
Each FBT year runs from 1 April to 31 March. This chapter contains details of the 1997–98 income year.

Client population

In 1997–98, there were 67,448 FBT taxpayers. The majority of these (60%) were private companies. However, these companies were only liable for slightly more than 22% of FBT payable. In contrast public companies accounted for 7% of FBT payers, yet they contributed 45% of all FBT.

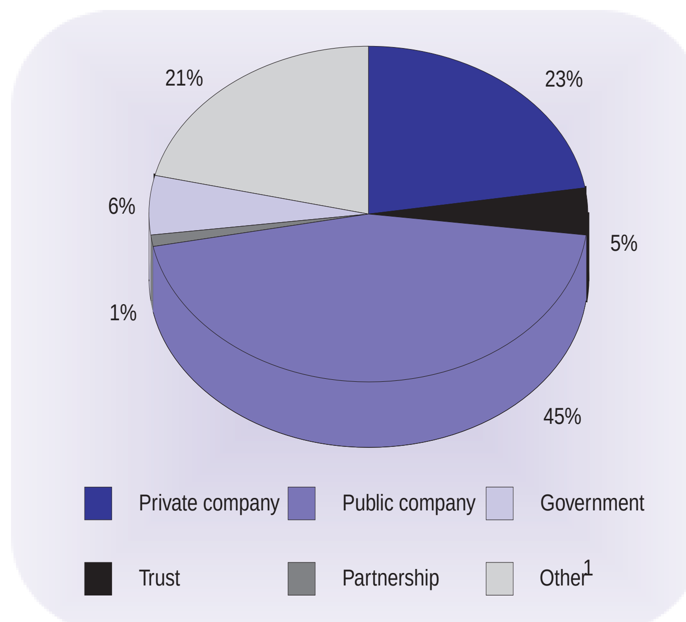
These differences are linked to the type and value of benefits provided by each type of taxpayer. For example, most private companies are small businesses. While a high proportion of these companies provide benefits, the value of the benefits are generally low when compared to other taxpayers, such as public companies.

Figure 11.1: FBT payers by organisation 1997-98



1. Other includes sole trader and superannuation fund.

Figure 11.2: FBT payable by organisation, 1997-98



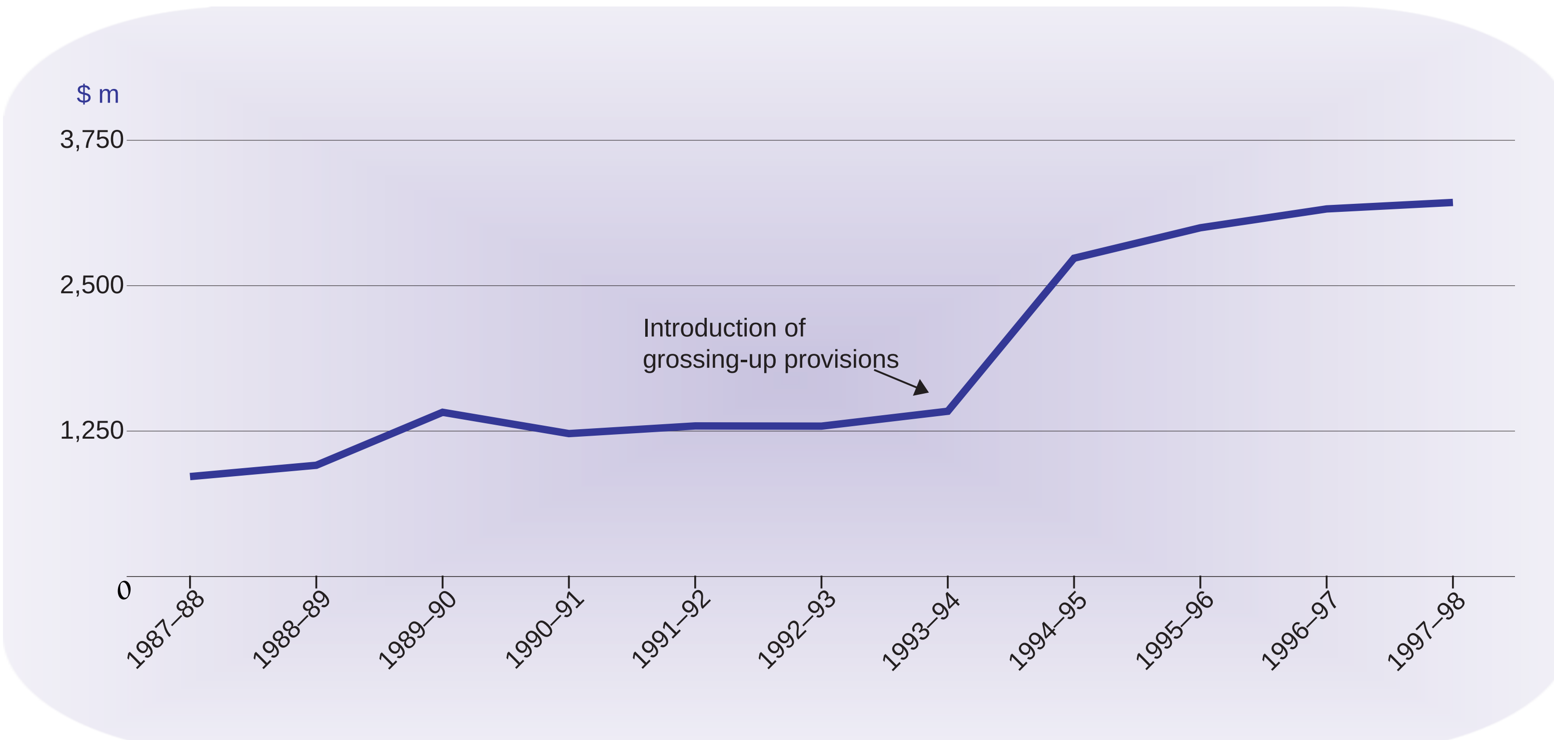
1. Other includes sole trader and superannuation fund

Revenue raised

In 1997–98 the amount of FBT revenue raised was $3.2 billion, up from $0.9 billion in 1987–88. FBT collections have grown at somewhat varied rates, with annual growth ranging from 0 to 93%. At the same time, the number of FBT payers have declined at an average rate of 4%.

The gain in revenue over this period is partly due to a general trend towards remuneration packaging for many employees. This is where some income is converted to other benefits, such as an employer provided car, which are usually subject to FBT. However, the sharp rise in 1994–95 is mainly due to the introduction of the grossing-up provisions on 1 April 1994.

Figure 11.3: Fringe benefits tax payable



Benefits

Motor vehicles are the main type of benefit provided to employees. In 1997–98, almost half (47%) of all FBT paid was for motor vehicle benefits.

The type of benefit varies across industry, as businesses traditionally provide benefits that are related to their area of business. For example, people working in the finance, insurance, real estate and business services industry are much more likely than employees of other industries to receive low cost loans.

Table 11.1: Tax payable by type of benefit

Type of benefit	Total tax payable	
	$ m	%
Motor vehicle total	1 527	47.5
Expense payment	781	24.3
Meal/entertainment (tax-exempt bodies)	199	6.2
Housing	125	3.9
Loan	108	3.3
Car park	95	3.0
Property	94	2.9
Living-away-from-home-allowance	47	1.4
Airline transport	38	1.2
Entertainment	21	0.7
Debt waiver	21	0.6
Board	12	0.4
Other	149	4.6
Total	**3 216**	**100.0**

Industry

In 1997–98, the highest proportion of FBT was paid by the finance, insurance, real estate and business services industry. This industry, which employed around 13% of the labour force, was liable for $1,026 million in FBT, accounting for 32% of all FBT payable. The next highest FBT payer was the manufacturing industry (19%) followed by wholesale trade (8%). While these three industry groups accounted for 59% of all FBT payable, they only employed 32% of the labour force. (Source: ABS *The Labour Force*, *Australia,* Cat No 6203.0.)

This difference is partly explained by the types of benefits that are more commonly provided by each of these industries. Motor vehicles are, on average, the most expensive benefit for employers to provide per employee. The manufacturing and wholesale trade industries provide a substantially higher proportion of motor vehicle benefits than the average for all industries. The next most expensive benefit provided to employees is low interest loans.

The majority of FBT (57%) is paid by large businesses although they represent only 12% of FBT payers. This is not surprising given that large businesses have significantly more employees than small businesses. Additionally, benefits provided per employee by large businesses have on average a higher value than those provided by small businesses.

Table 11.2: FBT payable by industry

Industry	SBI	LB&I	Total
	$ m	$ m	$ m
Finance, insurance, real estate & business services	350	677	1 026
Manufacturing	192	410	601
Wholesale trade	89	173	262
Mining	50	146	196
Retail trade	70	121	191
Transport & storage	70	81	151
Construction	70	53	123
Cultural & recreational services	79	22	101
Education	96	1	97
Health & community services	82	14	96
Government administration & defence	79	0	79
Communication	12	50	63
Accommodation, cafes & restaurants	34	17	51
Electricity, gas & water	32	11	44
Personal & other services	33	7	40
Primary production	20	16	36
Industry not stated	38	21	59
Total	**1 396**	**1 819**	**3 215**

Employee contributions

In some circumstances the employee may make a payment to the employer as a contribution towards the cost of providing the fringe benefits. These payments are referred to as employee contributions.

An employee contribution may only be made from an employee's after-tax income. Contributions in respect of a particular fringe benefit reduce the taxable value of that benefit, and therefore the amount of FBT payable. They may not be applied to reduce the taxable value of any other fringe benefit. The contribution an employee makes may also be assessable income in the hands of the employer. Employee contributions are most likely to be made on the benefits of motor vehicles and housing. Any operating expenses incurred by the employee in relation to the car supplied by the employer and not reimbursed, may also reduce the taxable value.

Data on employee contributions is only collected where employers submit an FBT form. Employers are not required to lodge FBT returns where the employee contributions reduce the FBT liability to nil.

Tax agents analysis

In 1997, the Tax Office used FBT return form data to analyse tax agent lodgment of FBT returns. The study was undertaken to identify emerging risks and determine the differing needs of tax agents.

Most FBT returns are lodged by tax agents (76%). However, non-agent lodgments account for a greater value of benefits than the agent lodgments (53% and 47% respectively). One reason for this is that many larger organisations prepare and lodge their own FBT returns.

FBT initiatives

To improve compliance and reduce the costs of complying with FBT legislation, the Tax Office is undertaking research into client needs and their preferred channels of communication. From this research, the Tax Office will develop information and education products which meet the needs of FBT clients. Seminars and workshops with FBT clients and tax agents are planned.

In addition, a change has been made to the partnership, company and trust return forms from the 1998 income tax year. They will now include a label to disclose the employee contributions made in relation to employee benefits. The label will enable the Tax Office to better target education campaigns and assist in understanding and clarifying the FBT client base.

In the 1998–99 financial year, the fringe benefits tax team will also undertake research into compliance levels across the range of benefits.

Other major initiatives include profiling of many client groups, including tax agents, to identify their different characteristics. This information will enable the Tax Office to develop a range of strategies to improve understanding and compliance of the FBT legislation.

Return form compilation

Fringe benefits tax return forms were lodged either electronically or in paper form. A facsimile of the return form can be found in the appendix.

Detailed tables

The following detailed tables on fringe benefits tax can be found on this CD-ROM:

Table 1: FBT: by business line, organisation and grade of net tax

Table 2: FBT: by type of benefit, business line and industry

Table 3: FBT: by type of benefit, business line and organisation

Table 4: FBT: by industry and organisation

Capital gains

Capital gains

Tax payable on capital gains

Source of capital gains

Detailed tables

Capital gains

Capital gains or capital losses can be made on the disposal of most assets acquired or deemed acquired after 19 September 1985. Broadly, a capital gain is the excess of the capital proceeds for the asset less its cost base. The cost base includes the purchase price, incidental costs of buying and selling the asset, the capital costs of some improvements, and some current expenses which are not deductible against ordinary income. Capital gains are adjusted for the effect of inflation where assets are held for 12 months prior to disposal. A capital loss arises when the capital proceeds are less than the cost base of the asset.

Assets that can attract a tax liability on disposal include real estate (including land), the goodwill of a business, leases, shares in companies, options to acquire shares, units in unit trusts, and some plant and equipment. Capital gains on certain motor vehicles and a person's principal residence are not subject to tax.

For each year, capital gains and losses on asset disposals are netted. A net capital gain forms part of taxable income. The amount of tax payable on the net capital gain is then calculated based on the appropriate tax rates for that type of taxpayer and the other taxable income of the taxpayer. A net capital loss cannot be offset against ordinary income, but may be carried forward to be offset against capital gains in future years.

There has been a change in the items relating to capital gains on tax return forms. From 1996–97 companies and funds (and from 1997–98 individuals) have been required to provide information on total capital gains instead of net capital gains. The Tax Office then calculates the net capital gains figures.

This chapter presents data on capital gains for the 1996–97 income year.

Tax payable on capital gains

In 1996–97, $2.1 billion in tax on capital gains was paid by individuals, companies and funds. This tax was paid on net capital gains totalling $9.5 billion.

The amount of tax paid on net capital gains has increased by 659% over the past decade, from $281 million in 1987–88. Capital gains tax is a reactive tax since it arises on the disposal of an asset. The timing of asset disposal may be related to a range of economic and social factors, as well as specific events such as the demutualisation of a life assurance company. For these reasons capital gains tax is difficult to forecast, and collections may be volatile over time.

Between 1995–96 and 1996–97, the number of individuals liable for tax on capital gains increased by 57% from 369,189 to 579,183. The total value of their gains increased from $2.1 billion to $2.9 billion. There are many reasons for this. As interest rates decline, Australians are looking beyond traditional savings accounts to make their money work more effectively. This, combined with several high profile floats on the stock exchange in recent years such as Qantas, Commonwealth Bank etc., has led to Australia having a high per capita share ownership. The result of this is increasing revenue through sales of assets such as shares, which are subject to capital gains tax. Figure 12.2 shows the correlation between net capital gains and stockmarket activity.

Of all tax payable on capital gains in respect of 1996–97, the largest proportion (39%) was paid by individuals. A further 34% was paid by companies and 27% by funds.

The amount of gains was highest for funds ($3.9 billion). However, funds paid significantly less tax on their capital gains than most individuals and companies. This was due to the lower taxation rates applicable to funds.

As expected, the proportion of taxpayers paying tax on capital gains increases as their taxable income increases. For example, in 1996–97 only 6% of individuals in the $20,700–$37,999 income range had a tax liability for capital gains. This compares to 22% of people in the $100,000–$499,999 income range. Overall, 80% of all tax paid on capital gains by individuals was paid by those with a taxable income of more than $50,000.

Figure 12.1: Capital gains tax paid

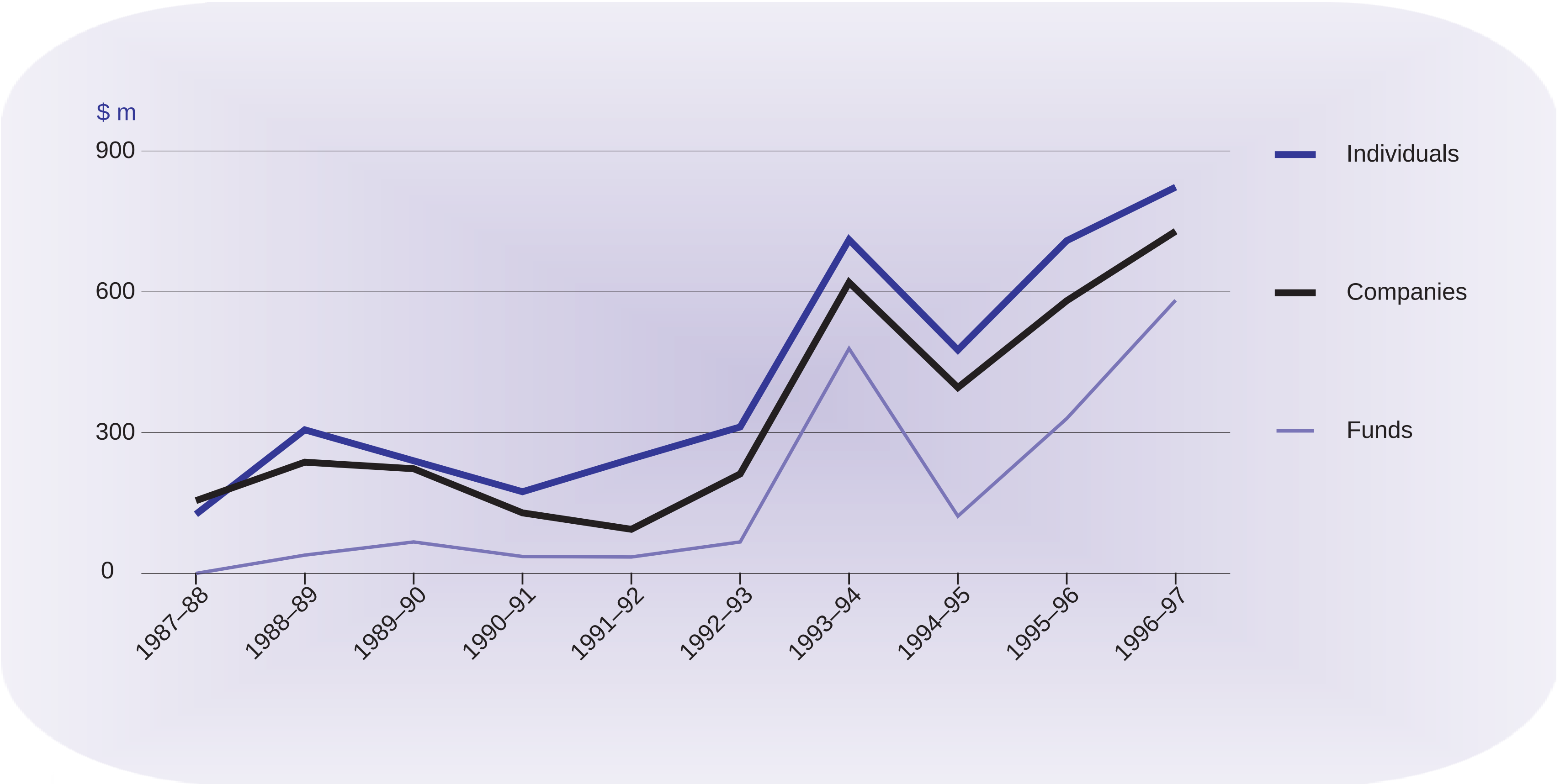


Figure 12.2: Net capital gains and stock market turnover

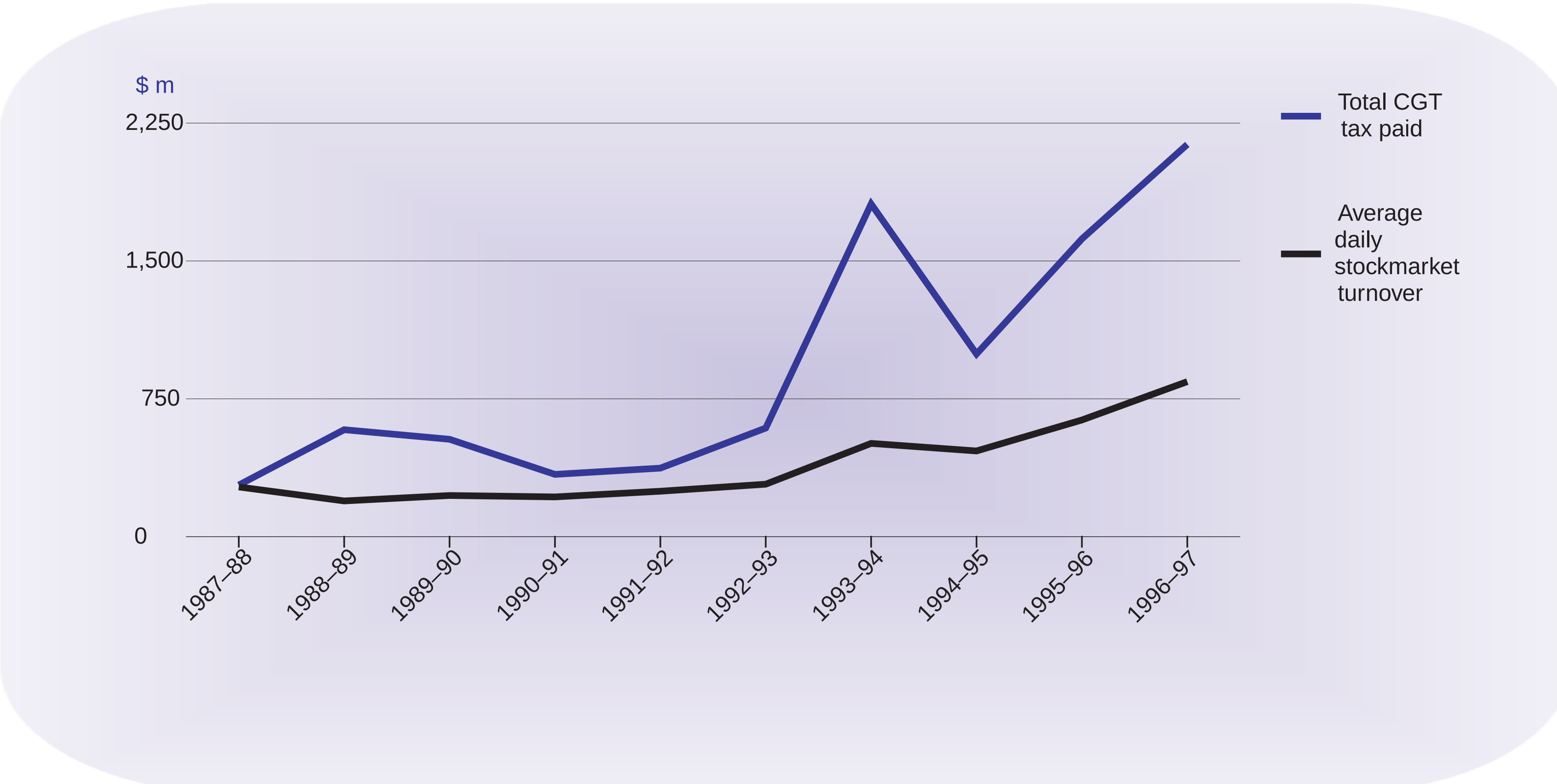


Table 12.1: Tax payable on capital gains

	Individuals	Companies	Funds	Total
Number[1]	579 183	10 733	31 412	621 328
Amount of gains ($ m)	2 899	2 717	3 870	9 486
Tax on gains ($ m)[2]	823	729	582	2 134
Average tax on gain($)	1 422	67 947	18 542	

1. Excludes non-taxable entities.

2. Tax payable on capital gains is estimated based on entity type and tax rates.

Table 12.2: Taxpayers with capital gains by grade of taxable income

	Individuals		Companies		Funds	
Taxable income	With capital gains	All taxpayers	With capital gains	All taxpayers	With capital gains	All taxpayers
	no.	no.	no.	no.	no.	no.
Under $20 700	151 504	2 887 472	2 996	123 488	9 745	55 816
$20 700–37 999	199 848	3 211 422	1 377	29 768	6 109	21 588
$38 000–49 999	97 078	1 163 857	659	12 741	2 890	9 445
$50 000–99 999	102 891	849 300	1 715	27 138	7 145	22 542
$100 000–499 999	26 828	124 425	2 874	30 893	4 813	11 583
$500 000–999 999	787	2 463	496	4 687	197	555
$1 000 000–4 999 999	238	650	440	3 785	248	597
$5 000 000 and over	9	20	176	1 292	265	354
Total taxable	**579 183**	**8 239 609**	**10 733**	**233 792**	**31 412**	**122 480**
Non taxable	**91 674**	**1 621 454**	**5 894**	**325 728**	**5 611**	**20 742**

Source of capital gains

In 1996–97, the highest proportion of capital gains were received in respect of shares. At $2.5 billion, shares accounted for 27% of total taxable capital gains.

This pattern remained consistent across all taxpayer groups. Among individual taxpayers, the most common sources of capital gains were shares and trust distributions. In 1996–97, $1.1 billion in capital gains was from shares and $577 million was from trust distributions. These two categories accounted for 58% of individual taxpayers' capital gains. A further 17% was attributable to more than one category.

Increased participation in the share market by individuals has contributed to the rise in net capital gains from the disposal of shares. This represented the highest proportion of capital gains in 1993–94, 1995–96 and 1996–97.

Table 12.3: Individuals subject to tax on capital gains

Source of capital gain	Individuals[1]	Amount of gain	Proportion of total gain
	no.	$ m	%
Shares	259 459	1 106	38.2
Trust distributions	178 729	577	19.9
More than one category	49 035	502	17.3
Real estate	22 878	377	13.0
Non-listed personal use assets	40 631	144	5.0
Goodwill on the sale of a business	6 559	74	2.5
Plant & equipment	9 275	42	1.4
Listed personal use assets	3 048	12	0.4
Other[2]	9 569	66	2.3
Total	**579 183**	**2 899**	**100.0**

1. Excludes non-taxable individuals.
2. Includes not stated.

Among companies, 25% of all capital gains in 1996–97 was from shares and 43% from more than one category.

Table 12.4: Companies subject to tax on capital gains

Source of capital gain	**Companies[1]**	**Amount of gain**	**Proportion of total gain**
	no.	$ m	%
More than one category	528	1 180	43.4
Shares	2 567	671	24.7
Non-listed personal use assets	178	128	4.7
Trust distributions	816	74	2.7
Real estate	355	67	2.5
Listed personal use assets	29	15	0.6
Other[2]	6 260	582	21.4
Total	**10 733**	**2 717**	**100.0**

1. Excludes non-taxable companies.

2. Other includes plant and equipment, goodwill and not stated.

19% of all capital gains made by funds in 1996–97 was from shares. More than half (56%) of all capital gains made by funds was from more than one category.

Table 12.5: Funds subject to tax on capital gains

Source of capital gain	**Funds[1]**	**Amount of gain**	**Proportion of total gain**
	no.	$ m	%
More than one category	4 105	2 165	55.9
Shares	10 873	744	19.2
Non-listed personal use assets	242	346	9.0
Trust distributions	3 948	59	1.5
Real estate	248	11	0.3
Listed personal use assets	38	4	0.1
Other[2]	11 958	540	14.0
Total	**31 412**	**3 870**	**100.0**

1. Excludes non-taxable funds.
2. Other includes plant and equipment, goodwill and not stated.

Detailed tables

The following detailed tables on capital gains can be found on this CD-ROM:

Table 1: Capital gains subject to tax: by entity, 1990–91 to 1996–97

Table 2: Capital gains subject to tax: by entity and grade of taxable income

Table 3: Capital gains subject to tax: by business line and grade of taxable income

Withholding Taxes

Withholding taxes

Withholding taxes

In order to ensure collection and to minimise administrative burdens to both taxpayers and the Tax Office, a withholding tax system applies in respect of Australian origin unfranked dividends, interest and royalties paid to non-residents.

Interest, unfranked dividends and royalties derived by non-residents are generally not taxed according to the normal assessment process but are subject to a flat rate withholding tax.

Within the Tax Office, withholding taxes are administered by the withholding and indirect taxes (WHT) business line.

WHT designs and manages the collection systems focused on the business community. Specifically, it collects revenue from: pay-as-you-earn (PAYE); prescribed payments system (PPS); sales tax; wool tax; non-resident interest, dividends and royalties withholding taxes; resident withholding tax of tax file number (TFN) amounts deducted; mining withholding tax; and tobacco charge. Detailed information on PAYE, PPS and sales tax is presented in the next three chapters.

WHT also has corporate responsibility for receipting, reconciling and posting all business line collections to client accounts and the general ledger. In 1997–98, this accounted for 13.7 million transactions worth $125.8 billion.

This chapter presents data on WHT collections from resident withholding tax for TFN amounts deducted, non-resident interest withholding tax, non-resident dividend withholding tax and non-resident royalty withholding tax for the 1997–98 financial year.

Definitions

Withholding tax is imposed in a number of forms:

Resident withholding tax of TFN amounts deducted: if a taxpayer does not supply an investment body with a TFN or advises of an exemption when making an investment, the investment body is required to withhold tax on any payments made in relation to the investment, which are then forwarded to the Tax Office. Tax is withheld at the maximum marginal tax rate for individuals plus the Medicare levy. Interest is the main type of payment from which tax is withheld. Non-resident investors are exempt from the TFN quotation rules but are subject to non-resident withholding tax rules. Resident withholding tax of TFN amounts deducted was introduced on 1 July 1991.

Non-resident interest withholding tax (IWT): is imposed at a flat rate of 10% on the gross interest paid to non-residents from an Australian payer. Where the non-resident taxpayer carries on a business in Australia through a permanent establishment, withholding tax does not apply and the interest is assessable by the normal assessment process. The major exemption from this tax relates to interest on certain public or widely spread debenture issues offered exclusively to overseas investors by Australian borrowers. This exempts a substantial proportion of borrowing. Collections on IWT are sensitive to interest rate changes. IWT was introduced on 1 January 1968.

Non-resident dividend withholding tax (DWT): is imposed at a rate of 30% (generally reduced to 15% for residents of countries which have double taxation agreements with Australia) on unfranked dividends paid to non-residents by Australian companies. Collections of DWT are dependent on dividend payments. DWT was introduced in 1959.

Non-resident royalty withholding tax (RWT): the government introduced a final withholding tax of 30% (generally reduced to 10% for residents of countries which have double taxation agreements with Australia) on royalty payments to non-residents from the commencement of the recipient's 1993–94 year of income. This replaced the previous assessment method of taxation where those payments (other than film and video tape royalties) were taxed at the rate of tax applicable to a non-resident's taxable Australian source income after deduction of allowable expenses.

Mining withholding tax: represents the amount withheld from payments to Australians for the use of Aboriginal land for mineral exploration and mining. The rate of withholding tax is 4%. The responsibility for paying the tax rests on the mining company, government or other person who makes the payment.

The mining payments to which the withholding system applies are:

- amounts representing royalties received by the Commonwealth for the mining of Aboriginal land;
- certain payments made to Aboriginal land councils; and
- payments made in relation to Aboriginal land for the issue of a miner's right or mining interest, for permission to mine or explore, and payments of mining royalties in relation to Aboriginal land.

Revenue raised

In 1997–98, $1,137 million in withholding tax was raised. This was an increase from $1,080 million the previous year, and $667 million in 1987–88.

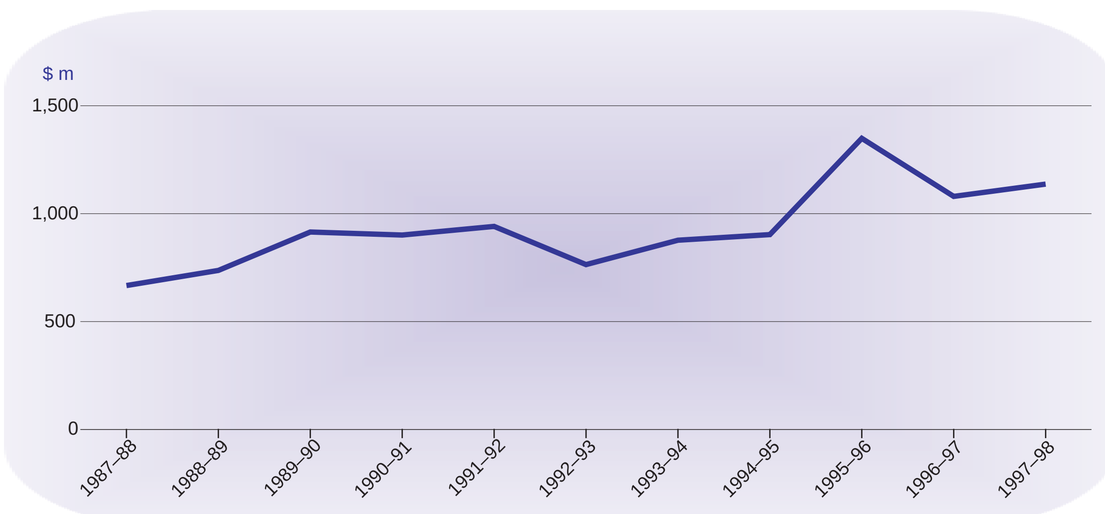
Almost half (45%) of all withholding tax came from interest withholding tax. A further 28% came from royalty withholding tax.

Resident withholding tax of TFN amounts deducted made up 25% of all withholding tax after its introduction in 1991. However, by 1997–98, it made up the smallest proportion of all withholding tax collections (11%). This is due to an increase in the number of people quoting their TFN to financial institutions when making investments. It is also due to interest rate cuts.

The amount of non-resident dividend withholding tax (DWT) collected in 1997–98 increased by 7% from the previous year. This is mainly due to companies, which paid almost 20% more than in 1996–97. Non-resident royalty withholding tax (RWT) collections were also up due to an increase in compliance from a broad range of taxpayers. The amount of non-resident interest withholding tax (IWT) decreased slightly over the year due to interest rate cuts.

The majority of withholding tax (54%) was collected in New South Wales (including the Australian Capital Territory). This was followed by Victoria and Tasmania (42%).

Figure 13.1: Withholding tax collections



Non-resident interest withholding tax

In 1997–98, $515.7 million was collected in IWT. The largest proportion (36%) was remitted by companies. This was followed by nominee companies (28%) and banks (12%).

There was a large difference between the type of organisation and the proportion of IWT they paid. For example, banks accounted for less than 1% of all organisations, yet they paid 12% of IWT. Similarly, nominee companies accounted for only 3% of all organisations, yet they paid more than one-quarter (28%) of all IWT. In contrast, trusts accounted for 18% of all organisations but paid only 7% of all IWT.

Table 13.1: IWT paid by organisation

Type of organisation	Number		Amount	
	no.	%	$ m	%
Nominee companies	285	2.9	144.3	28.0
Trusts	1 769	17.8	38.2	7.4
Banks	79	0.8	62.5	12.1
Other financial institutions[1]	255	2.6	47.7	9.2
Funds	125	1.3	1.3	0.3
Companies	3 403	34.3	187.4	36.3
Government institutions	13	0.1	8.6	1.7
Other	3 996	40.3	25.6	5.0
Total	**9 925**	**100.0**	**515.7**	**100.0**

1. Includes building societies and credit unions.

Non-resident royalty withholding tax

In 1997–98, $318 million was collected in RWT. Most of this (91%) was paid by companies. They accounted for 87% of all organisations paying RWT. Trusts made up 3% of all organisations paying RWT, however they paid less than 1% of the tax.

Table 13.2: RWT paid by organisation

Type of organisation	Number		Amount	
	no.	%	$ m	%
Trusts	76	3.3	2.0	0.6
Companies	2 003	86.8	289.1	90.9
Other	229	9.9	26.9	8.5
Total	**2 308**	**100.0**	**318.0**	**100.0**

Non-resident dividend withholding tax

$178.4 million was collected in DWT. Companies also paid the largest proportion of all DWT. They paid more than two-thirds (70%) of the total tax payable, yet they only made up 36% of all organisations paying the tax. Nominee companies paid a further 24% of DWT, yet made up only 3% of all organisations. In contrast, trusts accounted for 16% of all organisations paying DWT, yet they only paid 1%.

Table 13.3: DWT[1] paid by organisation

Type of organisation	Number		Amount	
	no.	%	$ m	%
Nominee companies	63	2.6	42.8	24.0
Trusts	394	16.0	1.9	1.1
Banks	19	0.8	1.8	1.0
Other financial institutions[2]	105	4.3	3.4	1.9
Funds	87	3.5	0.5	0.3
Companies	885	36.0	125.0	70.1
Other	906	36.8	2.9	1.6
Total	**2 459**	**100.0**	**178.4**	**100.0**

1. Includes mining withholding tax.

2. Includes building societies and credit unions.

Resident withholding tax for TFN amounts deducted

As expected, banks paid the largest proportion of resident withholding tax for TFN amounts deducted (63%), yet they only made up 4% of all organisations paying the tax. This is due to the large number of investors they represent. Companies paid a further 12% of all resident withholding tax for TFN amounts deducted, yet they accounted for more than one-quarter (27%) of all organisations paying the tax.

Table 13.4: Resident withholding tax for TFN amounts deducted, by organisation

Type of organisation	Number		Amount	
	no.	%	$ m	%
Nominee companies	15	1.4	0.2	0.2
Trusts	223	20.7	12.5	10.0
Banks	43	4.0	78.7	63.0
Other financial institutions[1]	271	25.2	6.7	5.4
Funds	158	14.7	9.9	7.9
Companies	287	26.6	14.4	11.5
Other	80	7.4	2.5	2.0
Total	**1 077**	**100.0**	**124.9**	**100.0**

1. Includes building societies and credit unions.

Detailed tables

The following detailed tables on non-resident withholding tax can be found on this CD-ROM:

Table 1: Royalties: collections by grade of annual remittance

Table 2: Interest: by type of organisation and grade of annual remittance

Table 3: Dividends: by type of organisation and grade of annual remittance

Sales tax

Sales tax

Sales tax collected
Trade groups
Consumer demand
Sales tax initiatives
Detailed tables

Sales tax

Sales tax (also known as wholesale sales tax) was introduced in 1930. It has developed from a single-rate tax with a limited number of exemptions to a multi-rate tax with a range of exemptions.

Sales tax is imposed on goods imported into Australia and on goods which are manufactured and used or consumed in Australia. It is usually paid on the wholesale selling price of goods, and generally imposed on the sale from the last wholesaler to the retailer. It may also be payable where goods are leased, imported by retailers for sale, imported by a consumer for private use, given away for promotional purposes, used as samples or used in the repair of other goods.

Manufacturers, wholesalers and others (including importers and indirect marketers) who are required to pay sales tax usually add the tax to the price they charge their customers. Retailers normally buy goods at a price that includes sales tax and, in most cases, have no sales tax liability when they sell the goods. Sales tax is paid on a monthly or quarterly basis depending on the payer's total sales liability for a full year.

A large number of goods are exempt from tax. These include most foodstuffs, medicines and surgical goods, some building materials, clothing, books, magazines, periodicals and newspapers.

Certain consumers, such as schools and public hospitals, are able to claim an exemption from sales tax on goods that they purchase for their own use. Goods to be exported from Australia are also exempt from sales tax provided that they are not used before being exported.

The general rate of sales tax is 22% and most goods are taxed at this rate. However, there are exceptions. For example, household furniture and bed linen are taxed at 12%. Goods such as jewellery, televisions, videos, watches, clocks and cameras are taxed at 32% and a component of the value of luxury motor vehicles is taxed at 45%.

In August 1997 the rate of tax on beer and spirits was raised from 22% to 37% and the rate of tax on wine was raised from 26% to 41%. This change occurred in response to a High Court decision that business franchise fees levied by the states were invalid. Revenue raised from the 15% surcharge is now distributed directly to the states.

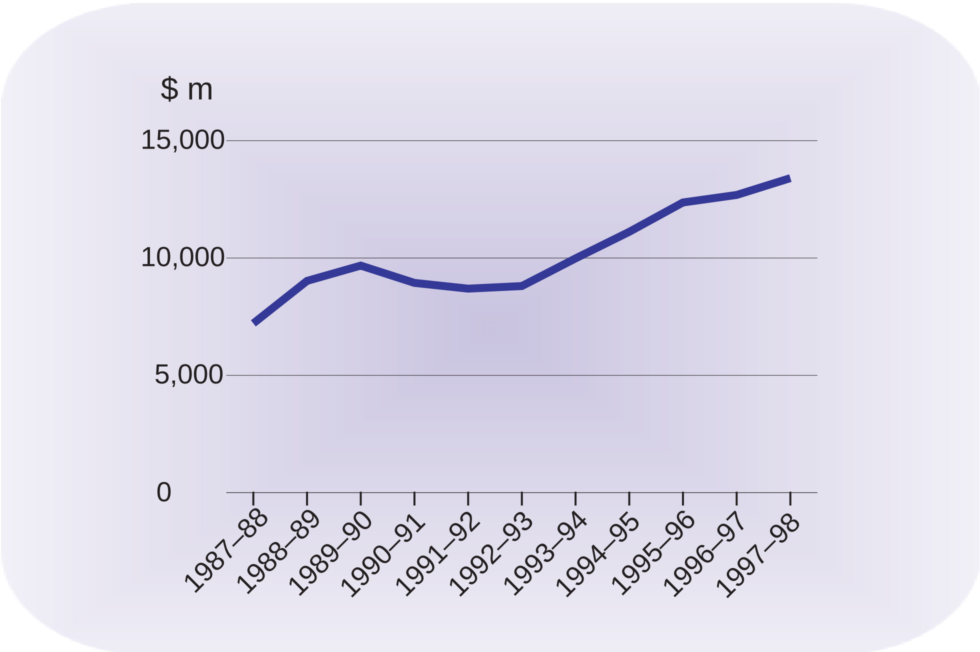
This chapter contains sales tax data for the 1997–98 financial year.

Sales tax collected

In 1997–98, $14.9 billion was collected in sales tax. The Tax Office collected $14.2 billion (including $0.8 billion for the alcohol surcharge) and $0.7 billion was collected through the Australian Customs Service.

Total sales tax collections (which include customs collections and the alcohol surcharge) increased by 43% between 1993–94 and 1997–98, from $10.4 billion to $14.9 billion).

Figure 14.1: Total sales tax collected[1]



1. Data excludes customs collections and includes the alcohol surcharge for 1997-98.

The amount of sales tax collected fluctuated prior to 1993–94. The recession in the early 1990s contributed to the fluctuation. The growth since 1993–94 is due to an increase in real consumption, as well as higher prices. It is also due to increases in the sales tax rates — 1% in August 1993 and a further 1% in July 1995.

In 1997–98, the largest collection of sales tax was in New South Wales ($5.7 billion) followed by Victoria ($4.7 billion). New South Wales and Victoria together collected 70% of total sales tax. These high collections are not only due to the high proportions of the Australian population in those states, but also the concentration of manufacturers and wholesalers operating there.

Between 1993–94 and 1997–98, Victoria had the largest state increase in sales tax, up 40% from $3.3 billion to $4.7 billion. This was followed by a 34% increase in New South Wales and a 30% increase in South Australia. Customs collections increased by 56% during the same period.

The majority of sales tax is paid by a small proportion of taxpayers. In 1997–98, 87% of sales tax was paid by 5% of taxpayers.

Table 14.1: Net sales tax by state[1]

State	1993–94		1997–98		Growth
	$ m	%	$ m	%	%
NSW	4 260	42.7	5 720	42.7	34.3
Vic.	3 346	33.5	4 697	35.0	40.3
Qld	1 066	10.7	1 376	10.3	29.1
SA[2]	574	5.7	744	5.6	29.6
WA	605	6.1	727	5.4	20.2
Tas.	90	0.9	100	0.7	11.1
ACT	43	0.4	41	0.3	-4.7
Sub total	9 985	100.0	13 405	100.0	34.3
Customs[3]	436	4.2	681	4.6	56.2
Alcohol surcharge[4]	n.a.	n.a.	770	5.2	n.a.
Total	**10 421**		**14 855**		

1. The state in which the sales tax was reported may be different to where the sale actually occurred.
2. NT figures are included with SA.
3. Refers to the sales tax collected by the Australian Customs Service on imported goods.
4. The alcohol surcharge amount includes $1 million collected by customs.

Trade groups

Businesses who register for sales tax are allocated into trade groups by the Tax Office. These trade groups reflect the goods which comprise the main taxable sales for each business. Over time, the main goods sold by a business can change while the trade group may go unaltered. As a result there is only a moderate degree of reliability attached to the broad groupings for analysis purposes.

The trade group that paid the most sales tax in 1997–98 was the motor cars, commercial vehicles (including motor bodies) and semi-trailers group. This group paid $3.2 billion in sales tax, accounting for 24% of all sales tax collected. This was an increase from $1.9 billion in 1993–94. The next largest trade group was beer, wine and spirits which paid $1.5 billion in 1997–98 (excluding the alcohol surcharge), up from $1 billion in 1993–94. At the same time, this group has maintained a stable 10–11% share of total sales tax. An additional $0.8 billion was raised on sales of beer, wine and spirits through the alcohol surcharge.

Generally, as sales tax rates increase, the amount collected will increase, although there will be some substitution effect which will work to offset this. For example, if the sales tax rate on one item increases, some consumers will buy a substitute item. Therefore, the sales tax collected will not increase to the full extent of the rate increase. In addition, the rates of increase have not been consistent across all items. For the motor vehicle group, the basic rate has increased from 15% in 1993 to 22% in 1995 while the general sales tax rate (Schedule 4) only increased from 20% to 22% over the same time. Such differential tax changes alter the relative contributions to total sales tax of the various groups of taxed items.

While the motor cars, commercial vehicles and semi-trailers trade group, and the beer, wine and spirits trade group pay the highest amounts of sales tax, they each account for only 2% of remitters.

Table 14.2: Highest sales tax remitters by trade groups

Trade groups	1993–94		1997–98	
	$ m	%	$ m	%
Motor cars, commercial vehicles (including motor bodies), semi-trailers, etc	1 882	18.9	3 154	23.5
Beer, wine and spirits	1 027	10.3	1 482	11.1
Machines and machinery	795	8.0	979	7.3
Domestic and office furniture, equipment and machines	720	7.2	945	7.0
Household appliances, parts and accessories	744	7.5	874	6.5
Motor vehicle parts and accessories	402	4.0	482	3.6
Printing, printed stationery, bookbinding and signwriting	423	4.2	480	3.6
Aerated waters and cordials	306	3.1	385	2.9
Building materials and hand tools	266	2.7	378	2.8
Tyres, tubes, retread and recap rubber, wet cell batteries, oils and greases	325	3.3	370	2.8
Soaps, detergents, disinfectants, toilet and beauty preparations	282	2.8	343	2.6
Other	2 812	28.2	3 532	26.4
Subtotal	9 985	100.0	13 404	100.0
Alcohol surcharge			769	
Total[1]	**9 985**		**14 173**	

1. Tax Office collections only. Data does not include the alcohol surcharge collected by Customs.

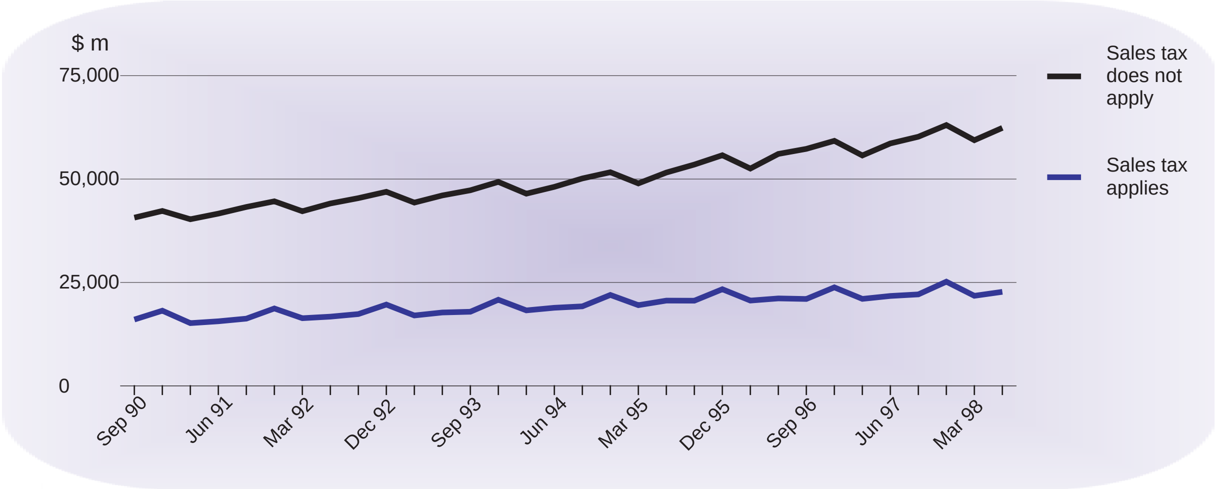
Consumer demand

The amount of sales tax collected is dependent on consumer demand for goods which are taxable. Consumer demand varies over time, and some goods became more important to consumers than others. As sales tax is not applied at a standard rate across all items, the changes in consumption patterns will be reflected in taxation collections. In recent years, there has been an increase in the consumption of services, which are generally not subject to sales tax, compared to the consumption of goods, which generally are subject to sales tax.

The data in Figure 14.2 are based on broad categories of consumption. It is possible that some of these categories include both taxable and non-taxable items. For example, one category of consumption is health. This has been put into the 'sales tax does not apply' category although it may include some taxable health related goods. Despite this, the graph provides an overall picture of the consumption of taxable and non-taxable items in Australia.

It is interesting to note that there is a peak once each year in the consumption of both taxable and non-taxable items. This occurs in the December quarter and reflects Christmas buying and consumption patterns.

Figure 14.2: Private final consumption



Source: ABS National Accounts, June 1997, Cat No 5206.0

Sales tax initiatives

According to Schedule 1 in the *Sales Tax Assessment Act 1992*, taxpayers can, in certain situations, claim sales tax credits — for example, where tax has been overpaid, where sales tax has already been paid on goods that were sold to someone with an exemption, where sales tax has been paid on containers used for tax exempt goods, etc. To claim sales tax credits, taxpayers must lodge an application with the Commissioner and claim the credit as a refund or have it offset the credit to which they are entitled in their return. Many millions of dollars in credits are claimed each year.

The Tax Office has begun investigating whether claims to offset credits are an area of non-compliance. A survey has been distributed to a number of randomly selected large clients, seeking details of sales tax credits they had offset from their sales tax returns. During 1998–99, the Tax Office will seek further responses from clients in an effort to resolve whether a compliance problem exists and, if so, to what extent.

In order to identify and respond to sales tax related issues, particularly for large businesses, the Tax Office operates Centres of Technical Excellence. These centres are an internal administrative structure of the Tax Office. The centres have found that one of the major sales tax planning activities undertaken by businesses involves manipulating the taxable value of goods. The Tax Office is currently investigating this risk and will then take corrective action. Other roles of these centres include assisting clients in the resolution of sale tax technical policy issues, writing policy documents, selecting appropriate cases to test issues before the courts, and supporting the litigation efforts of these cases.

Sales tax rates effective August 1998

	Rate
Schedule 1 Goods that are exempt from tax include: food, clothing, building materials, drugs and medicines, goods for use in agriculture, mining, and irrigation, goods for use by governments etc.	exempt
Schedule 2 Includes goods ordinarily used for household purposes	12%
Schedule 3 Passenger motor vehicles	under Schedule 4
Schedule 4 All goods not covered by another schedule, includes computers, toys, telephones, passenger motor vehicles, beer, spirits	22% *
Schedule 5 Includes fur skins, jewellery, watches, televisions, video recorders	32%
Schedule 6 Luxury motor cars (charged on excess)	45%
Schedule 7 Alcoholic wine/cider	26% *
Schedule 8 Low alcohol wine/cider	under Schedule 2

1. There is an additional 15% surcharge on certain alcoholic beverages. The actual rates are 37% for beer and spirits and 41% for wine.

Detailed tables

The following detailed tables on sales tax can be found on this CD-ROM:

Table 1: Sales tax: collections by grade of remittance

Table 2: Sales tax: paid in returns by business type — 1992–93 to 1997–98

Table 3: Sales tax: net collections by state

Table 4: Sales tax rates

PAYE

PAYE

Revenue raised

Payers

Industry

New clients

Personal services income project

Detailed tables

PAYE

The pay-as-you-earn (PAYE) system was introduced in 1941. It is the main tax collection system affecting individuals. It is the method by which most salary and wage earners pay their tax, Medicare levy and higher education contribution scheme repayments by having instalments deducted from their pay. Employers are required to make tax instalment deductions at prescribed rates, in order to cover their employee's anticipated tax liability at the end of the year, and pay them directly to the Tax Office.

The timing for employers to forward PAYE deductions to the Tax Office is determined by the size of the payroll. For example, in 1997–98 most employers were required to forward the deductions to the Tax Office on the 7th day of the following month. However, those employers deducting less than $10,000 in tax for the year were allowed to remit it quarterly (October, January, April and July). Employers deducting more than $1 million in the year were required to pay fortnightly.

In the 1997 Budget, the government announced changes to these payment schedules. From 1 July 1998, payers remitting more than $1 million through the PAYE, prescribed payments and reportable payments systems in a financial year are required to remit by electronic transfer within seven days of deducting the tax. Small remitters with total payments of $25,000 or less in a financial year are able to remit on a quarterly basis.

Employers must provide each employee with a group certificate at the end of the income year. The group certificate shows the gross amount of earnings and tax instalment deductions made during the year. Wherever an employee has quoted a tax file number (TFN), the employer must show the number on the group certificate. If an employee does not provide a valid TFN to their employer, tax must be deducted at the highest marginal tax rate plus the Medicare levy.

This chapter presents data on PAYE collections for the 1997–98 financial year.

The structure of the labour force

Recent developments in the industrial relations system have increased the flexibility of the workforce. As a result, considerable changes have been observed in the way employers use the labour force.

Employees: the vast majority of labour is provided by employees who work for an employer. Employers are required to deduct PAYE payments on behalf of their employees.

Unincorporated contractors: make up the second largest group of workers. There are three main types of unincorporated contractors. The first is where the contractor meets all the tests of an employee, especially in terms of their inability to delegate responsibilities to another person and the high degree of control by the employer over the way work is done. These contractors are covered by the provisions of the PAYE law. The second type of unincorporated contractors, dependant contractors, work principally for one organisation. These contractors are able to delegate their duties to others. The courts have decided that PAYE does not apply to these people. The third group is independent contractors who work for the world at large. The law does not require PAYE to apply to these people. In both latter cases, PPS could apply to the contractor payments.

Incorporated and unincorporated entities: companies, partnerships and trusts are the third largest group of workers. These entities often consist of one worker and possibly family members. Employers are not required to make PAYE deductions from any payment made to such an entity. However, the incorporated entity, trust or partnership itself is required by the PAYE laws to deduct tax from any wages it pays. Also, for some industries PPS may need to be deducted by employers.

Changes in the balance between the three types of employment can affect PAYE collection levels. Changes will also have a consequential impact, depending upon the industry in which the contractors work, on the provisional tax, PPS, company instalment and fringe benefits tax systems.

In recent years, there has been an increase in the number of workers categorised as contractors or sub-contractors. The implications of this change for the PAYE system are the subject of further research by the Tax Office.

Revenue raised

The PAYE system plays a vital role in government revenue. Tax collected through this system represents approximately 58% of total taxation revenue. In 1997–98, the Tax Office received $66.2 billion through PAYE collections. The amount of revenue received through PAYE has increased from $41.2 billion in 1988–89.

PAYE collections have increased steadily during the past ten years. Growth in PAYE collections can largely be attributed to increases in the number of people employed and increases in average weekly earnings.

Increases in salaries and wages have resulted in many taxpayers moving into higher tax brackets and, as a result, paying tax at higher tax rates.

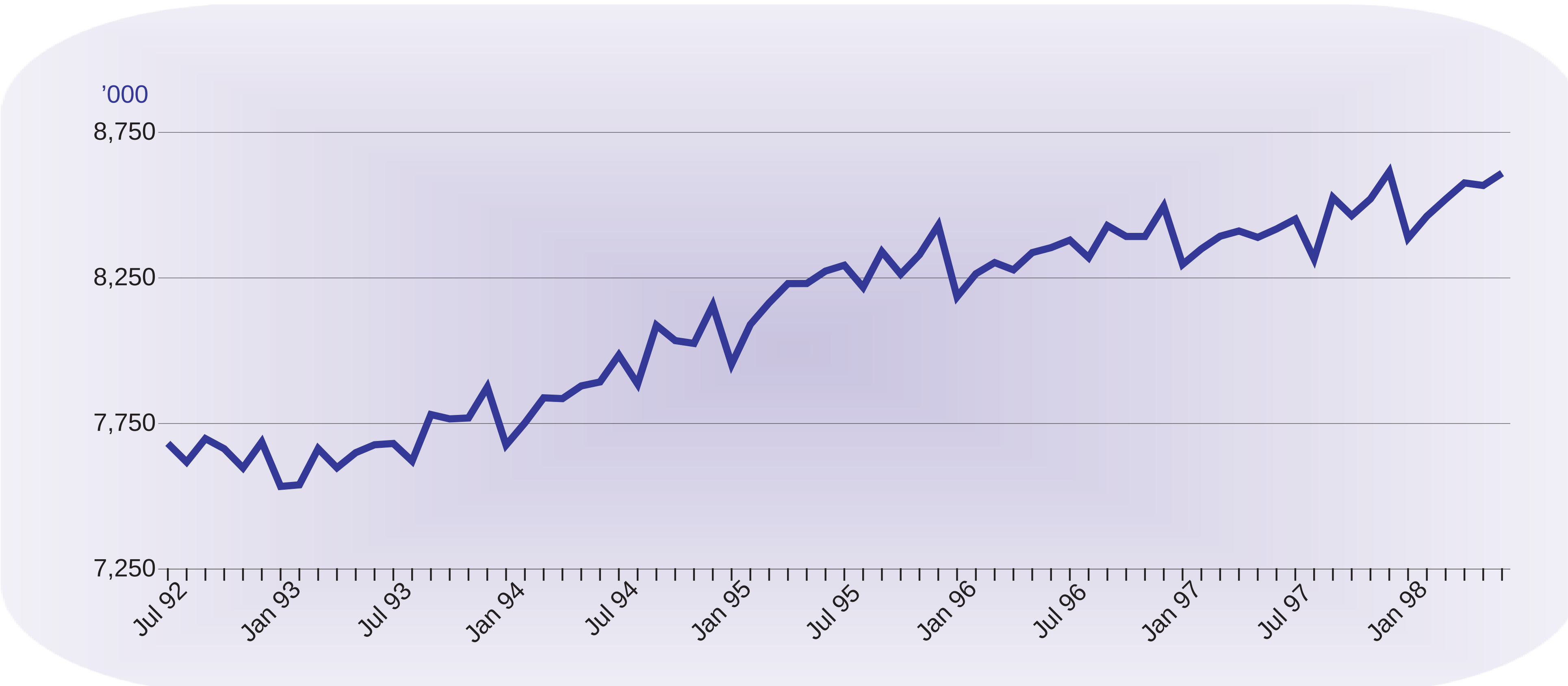
Changes in the structure of the work-force also affects collection levels. In recent years there has been an increase in part-time employment. This increase in the ratio of part-time to total employment has reduced average taxable incomes, slightly offsetting the growth in PAYE collections.

Growth in PAYE collections have also been offset by an increase in the emphasis of non-cash benefits, such as cars, which are provided by employers to employees, and which are available for private use by the employee. As employees substitute salary and wages for such non-cash benefits, taxable incomes decrease and reduce the level of PAYE collections.

Cyclical factors such as the number of pay days in a year can also cause a slight variation in collections, although this effect is generally small in the overall context.

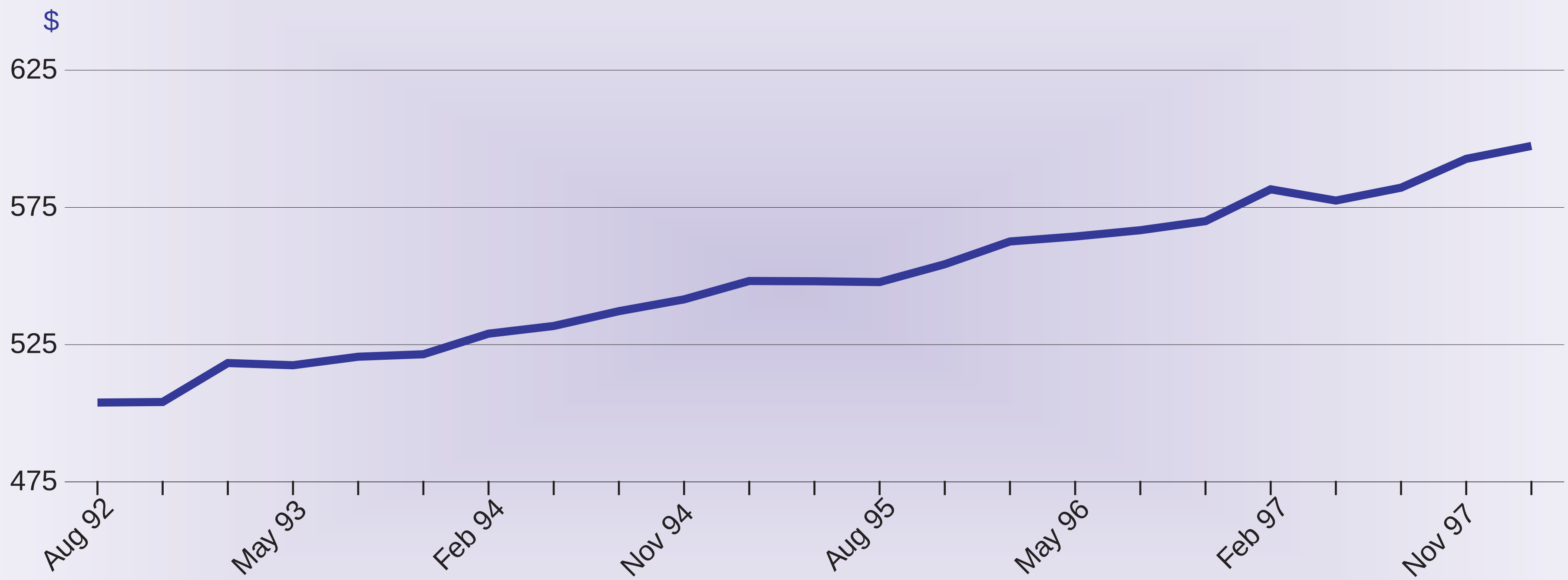
Figure 15.1: PAYE collections

Figure 15.2: Number of employed people



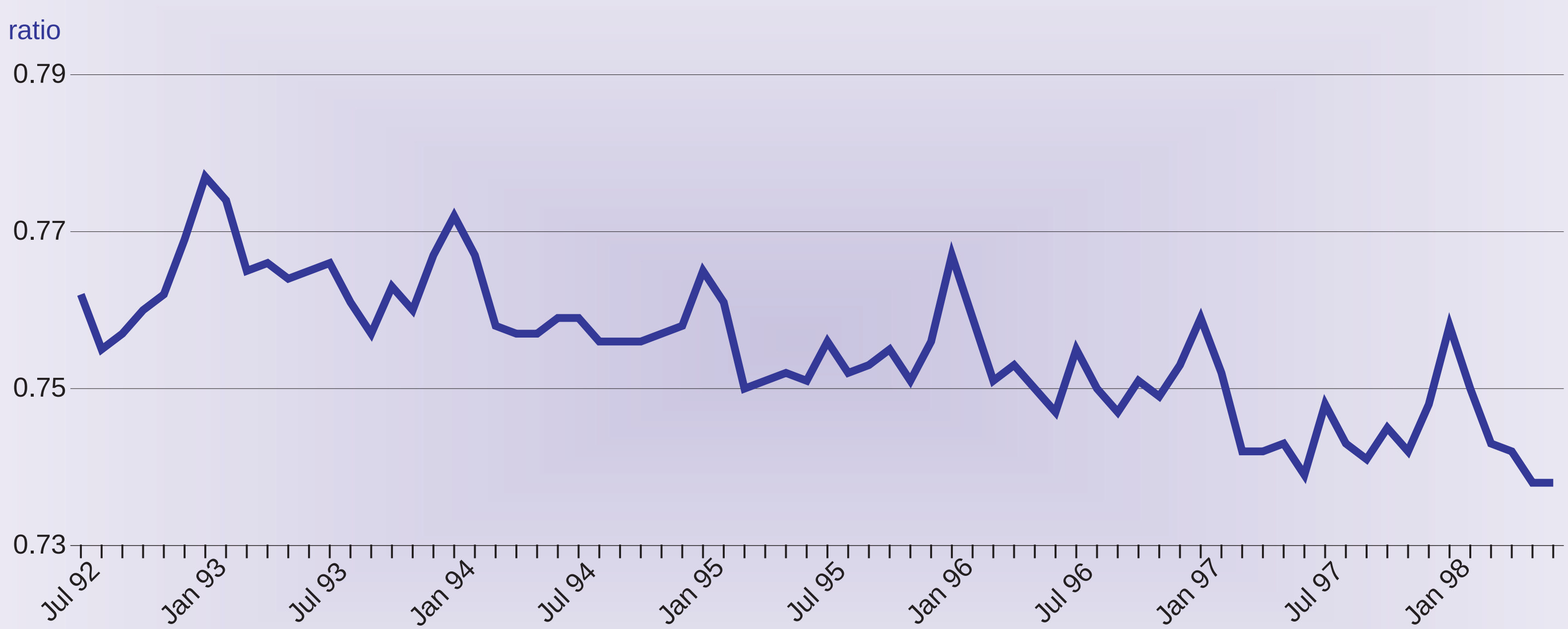
Source: ABS: The Labour Force, Australia, Cat No 6202.0

Figure 15.3: Average weekly earnings



Source: ABS: The Labour Force, Australia, Cat No 6202.0

Figure 15.4: Ratio of full-time to total employment



Source: ABS: The Labour Force, Australia, Cat No 6202.0

Payers

In 1997–98, 725,225 employers forwarded PAYE tax instalment deductions to the Tax Office. The number of PAYE remitters has increased steadily during the past ten years, from 406,808 in 1988–89.

In 1997–98, 8% of payers returned 85% of total PAYE remittances. These large payers consisted mainly of companies with very large numbers of employees. However this imbalance is also affected by the levels of wages and salaries being paid by those remitters.

Between 1988–89 and 1997–98, the amount of PAYE revenue collected increased by 60%. The greatest amount collected in 1997–98 was in New South Wales (39% of all PAYE revenue collected) followed by Victoria (27%).

Table 15.1: PAYE collections by amount paid

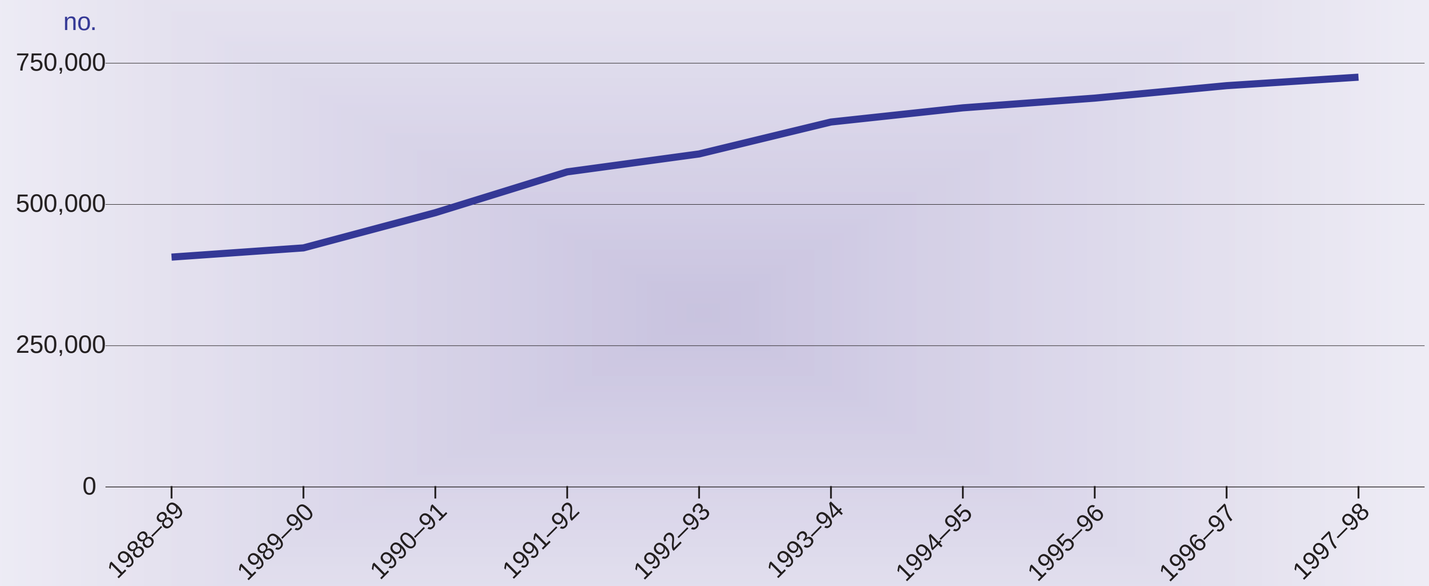
Amount paid	Payers	Proportion	Amount paid	Proportion
	no.	%	$ m	%
Less than $1,000	92 285	12.7	39	0.1
$1,000–$4,999	177 209	24.4	486	0.7
$5,000–$9,999	117 526	16.2	853	1.3
$10,000–$24,999	152 406	21.0	2 455	3.7
$25,000–$49,999	82 337	11.4	2 904	4.4
$50,000–$99,999	49 350	6.8	3 441	5.2
$100,000–$499,999	41 751	5.8	8 383	12.7
$500,000–$999,999	5 637	0.8	3 936	5.9
$1,000,000–$1,999,999	3 212	0.4	4 501	6.8
$2,000,000–$2,999,999	1 080	0.1	2 649	4.0
$3,000,000–$3,999,999	602	0.1	2 074	3.1
$4,000,000–$4,999,999	365	0.1	1 634	2.5
More than $5,000,000	1 465	0.2	32 801	49.5
Total[1]	**725 225**	**100.0**	**66 155**	**100.0**

1. Components may not add to totals due to rounding.

Table 15.2: PAYE remitters by state 1997-98

State	Number of remitters	Growth over last year	% of total	Amount remitted	Change over last year	Average amount per remitter
	no.	%	%	$ m	%	$
NSW	252 710	3.9	34.8	25 471	8.9	100 790
Vic.	183 618	4.8	25.3	17 858	6.7	97 257
Qld	129 441	4.5	17.8	8 589	6.6	66 356
WA	72 083	5.4	9.9	5 475	7.9	75 950
SA	53 139	3.7	7.3	3 712	6.5	69 850
Tas.	15 552	2.6	2.1	1 023	2.8	65 774
ACT	9 824	5.2	1.4	3 267	10.1	332 574
NT	5 912	5.2	0.8	523	7.2	88 441
Not stated	2 946	-83.9	0.4	238	-22.2	80 667
Total	**725 225**	**2.1**	**100.0**	**66 155**	**7.5**	**91 220**

Figure 15.5: PAYE remitters[1]



1. Excludes nil returns

Industry

The amount of PAYE revenue raised varies considerably according to the type of industry. Collections depend on the number of employees in each industry and income levels. For example, industries containing a large number of professional people may provide more PAYE revenue because of their higher average salaries. PAYE is also affected by the various employment arrangements used in certain industries. For example, the building and construction industry has a higher ratio of contractors to total workers than other industries. Therefore, they will have a greater proportion of workers covered under the withholding arrangements of the prescribed payments system (PPS) rather than the PAYE system.

In 1997–98, the industry that remitted the highest proportion of PAYE revenue was the finance, insurance, real estate and business services industry (20%). This was followed by manufacturing (16%) and health and community services (12%).

Table 15.3: PAYE revenue remitted by industry[1]

Industry	Amount	Proportion
	$ m	%
Finance, insurance, real estate & business services	13 190	19.9
Manufacturing	10 425	15.8
Health & community services	8 059	12.2
Retail trade	4 458	6.7
Wholesale trade	3 529	5.3
Transport & storage	3 286	5.0
Construction	2 984	4.5
Education	2 870	4.3
Mining	2 107	3.2
Personal & other services	1 613	2.4
Communication	1 572	2.4
Accommodation, cafes & restaurants	1 566	2.4
Cultural & recreational services	1 202	1.8
Primary production	886	1.3
Property	885	1.3
Other[2]	7 522	11.4
Total	**66 155**	**100.0**

1. In 1996–97, the industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, this data should not be used for time series analysis as the industry groups are not comparable.

2. Includes government and administration, utilities, miscellaneous and invalids.

New clients

A review of new client registrations was conducted during the year. Almost half of new PAYE registrations in the three month sample period were from companies. Partnerships and individuals were the next most common, with each of these accounting for slightly less than 20% of new registrations.

Most of the new registrations were from businesses operating in the property and business services industry, followed by retail trade and construction. These industries accounted for slightly more than half of the new PAYE registrations in the period. However, in terms of remittance levels, the property and business services, manufacturing, and finance and insurance services industries have the highest estimated annual liability amounts. Estimated remittances from these three industries account for half of the total estimated amount, with property and business services alone accounting for 27%.

The property and business services industry includes many of the growth areas in the economy, and is an area where service industries dominate. Most of the new registrations came from the subgroups of marketing and business management services and computer services.

The industries of new clients varied by geographic location. For example, the most common industries in Australia were property and business services, followed by the retail industry. However, in New South Wales the second most common industry was construction. This is partly due to the increase in construction activity in the lead up to the 2000 Olympics.

Personal services income project

During 1997–98, the Tax Office conducted a project to help people who derive personal services income to better comply with their obligations under the income tax law. Personal services income is income that a person earns predominantly as a direct reward for his or her personal efforts by, for example, the provision of services, exercise of skills or the application of labour. The project was directed at those who derive such income in an ‘employee-like’ way, through an interposed family company, trust or partnership.

In some cases, these arrangements may be used for the purpose of income splitting. Income splitting occurs when people use the family company, trust or partnership to split their income with other family members in the form of a wage, a company dividend or a beneficiary or partnership share, thus resulting in tax savings.

As part of the project, the Tax Office sent an explanatory letter and educational materials to 1,616 tax practitioners who appeared to have personal services income clients. Tax Office staff then visited 1,141 of these tax practitioners to answer questions and review the returns of clients who use interposed entities. Efforts in this area will continue in 1998–99, with a new focus on compliance enforcement.

The Tax Office also conducted a separate but related project in 1997–98. This involved a review of arrangements that remove people from the PAYE system by treating them as contractors. The project included education and, where necessary, enforcement in industries with a high incidence of apparent non-compliance with the PAYE provisions.

General income tax rates applicable to resident individuals for the 1997-98 income year

Not less than	Not more than	Tax payable on total taxable income
$0	$5 400	Nil
$5 400	$20 700	Nil + 20c for each $1 over $5 400
$20 700	$38 000	$3 060 + 34c for each $1 over $20 700
$38 000	$50 000	$8 942 + 43c for each $1 over $38 000
$50 000		$14 102 + 47c for each $1 over $50 000

Resident individuals are also liable to pay a Medicare levy of 1.5% of taxable income. Family tax assistance, which increases a person’s tax-free threshold, applies to certain resident taxpayers with dependent children.

Detailed tables

The following detailed tables on PAYE can be found on this CD-ROM:

Table 1: Collections by grade of annual remittance, 1993–94 to 1997–98

Table 2: Group remitters: by state

PPS & RPS

PPS & RPS

PPS collections
Industry
New clients
What is RPS?
Detailed tables

PPS & RPS

The prescribed payments system (PPS) was introduced in 1983. It is a tax collection system designed to withhold tax from payments going to service providers in certain industries. People who are making or receiving payments under a written, verbal or implied contract with another person in the same prescribed industry are subject to PPS. Additionally, PPS will apply to some payments to certain prescribed industries which are made from outside that industry.

PPS requires people to pay tax throughout the year if they are working under contract in any of the following industries:

- building and construction;
- joinery and cabinet making;
- architectural services;
- cleaning;
- engineering services;
- motor vehicle repair;
- surveying services;
- road transport; and
- professional building and construction services.

The PPS system is separate from the PAYE system, which applies to payments made to employees. However it is similar to PAYE in that it requires affected taxpayers to contribute to their expected tax liability as they earn income.

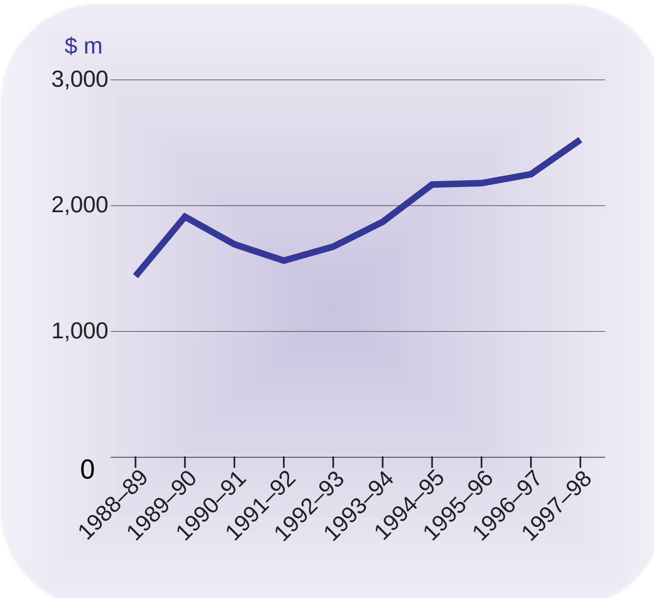
People receiving contract payments under PPS must give each payer a completed payee declaration form. Unless a variation or exemption is obtained, the payer must deduct tax at the rate of 20% from any payments made to a payee, and forward those deductions to the Tax Office each month. If payees do not complete a payee declaration form, tax is deducted at the highest marginal tax rate plus the Medicare levy. Amounts deducted under PPS can be used by the payee as a credit against their end of year tax liability.

From 1 July 1998 payers remitting more than a combined amount of $1 million in PAYE, PPS and reportable payments system (RPS) in a financial year will be required to remit the tax by electronic transfer within approximately seven days of making the deductions. Small remitters, whose payments do not exceed $25,000 in a financial year, will be able to remit on a quarterly basis.

This chapter presents data on PPS collections for the 1997–98 financial year.

PPS collections

Figure 16.1: PPS collections over time



In 1997–98, PPS collections were $2.5 billion, or slightly more than 2% of total Tax Office collections. This was an increase from $1.4 billion in 1988–89. PPS collections have grown in line with movements in the industries in which it applies, particularly in the construction industry.

Table 16.1: PPS collections

Amount paid	Payers	Proportion	Amount paid	Proportion
	no.	%	$ m	%
Less than $4,999	94 490	60.4	145	5.7
$5,000–$9,999	21 688	13.9	156	6.2
$10,000–$49,999	31 138	19.9	684	27.1
$50,000–$99,999	5 290	3.4	369	14.6
$100,000–$499,999	3 452	2.2	656	26.0
$500,000–$999,999	284	0.2	200	7.9
More than $1,000,000	151	0.1	314	12.5
Total	**156 493**	**100.0**	**2 524**	**100.0**

Most payers of PPS tax remit small payments. Nearly three-quarters (74%) of payers remit less than $10,000 per year. All together these people pay only 12% of all PPS tax. Slightly more than 2% of payers remit more than $100,000 per year, but they pay almost half (46%) of all PPS tax.

In all states the amount of PPS tax paid increased over the year to June 1998. The greatest increase was in WA (11%), followed by SA & NT (9%) and NSW & ACT (5%).

The amount of PPS tax paid varies from month to month. This reflects the seasonal nature of contract work in the industries in which PPS applies. For example, for all states there was a decrease in the amount of PPS tax paid during January and February, with an increase in March. This reflects the fact that many industries covered by PPS, such as building and construction, close down over the Christmas/ New Year period.

Industry

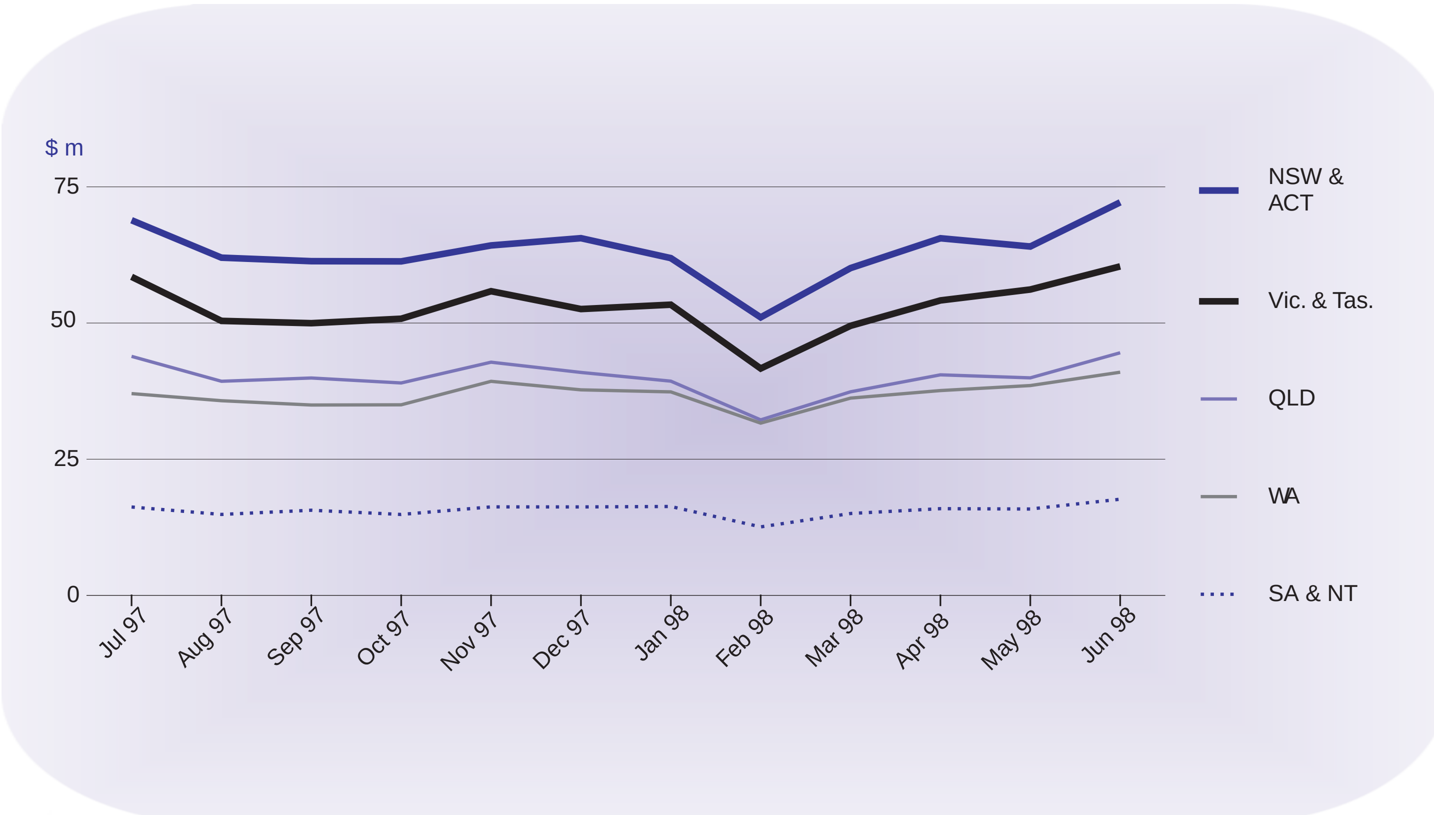
The main industry in which PPS collections are made is the construction industry. This is followed by the transport and storage, property and finance, retail, and communication industries.

In 1997–98, the construction industry paid $1.8 billion in PPS tax which accounted for 72% of total PPS collections and 77% of PPS payers. This was followed by the transport and storage industry, which remitted 12% of total PPS collections, but had only 6% of PPS payers.

Table 16.2: PPS collections by industry

Industry	**Amount paid**	**Proportion**
	$ m	%
Construction	1 807	71.6
Transport & storage	315	12.5
Property & finance	212	8.4
Retail	71	2.8
Communication	50	2.0
Other	70	2.8
Total	**2 524**	**100.0**

Figure 16.2: PPS tax paid by state



New clients

A review of new PPS client registrations was conducted during a three month period in the 1997–98 year. In the review, building and construction businesses accounted for almost 60% of new registrations. Owner builders made up 26% of new registrations during the period. Most of the new PPS registrations were from individuals which is partly due to the large proportion of new registrations from owner builders.

However, for the three month period chosen, new PPS registrations were down by about 10% on the corresponding period for the previous year. This may be due to economic reasons since a proportionately greater share of the downturn in new registrations occurred in the building and construction industry.

What is RPS?

The reportable payments system (RPS) was introduced in December 1994. It is very similar to PPS as it places an obligation on payers of specified transactions in certain industries to deduct tax from payments and remit these deductions to the Tax Office. Unlike PPS, however, deductions for tax are only made when the payee has not quoted a valid TFN to the payer. The tax is deducted at the highest marginal tax rate plus the Medicare levy. Amounts deducted under RPS can be used by the payee as a credit against their end of year tax liability.

When the payee does quote a valid TFN to the payer, tax is not deducted or withheld from any payments. The payee declares RPS income in their tax return at the end of the year and pays tax at the applicable rate.

RPS affects the following industries:

- fishing;
- clothing;
- smash repairs; and
- fruit and vegetables.

As payers are only required to deduct tax when the payee has not quoted a TFN, RPS remittances represent only a very small proportion of total taxation revenue. In 1997–98 the Tax Office collected slightly more than $1 million in RPS.

Detailed tables

The following detailed table on PPS can be found on this CD-ROM:

Table 1: PPS payers: by grade of annual remittance

Child Support

Child support

Eligible population
CSA caseload
Assessment type
Transfers of child support
Profile of CSA clients
Children

Child support

In the late 1980s, the government recognised there was a child support crisis occurring in Australia. At that time, child support could only be obtained by parents reaching an agreement or by obtaining a court order. Family courts were making orders for child support payments which were perceived to be too low and not linked to the capacity of the non-residential parent to pay. In addition, only 30% of non-residential parents with court orders were making regular child support payments[1].

!. (Child Support Scheme: an examination of the operation and effectiveness of the scheme, November 1994, Joint Select Committee on Certain Family Law issues. P12)

In an attempt to remedy this situation, the child support scheme (CSS) was introduced in 1988. Stage 1 of the scheme established the Child Support Agency (CSA) and allowed for the registration and collection of court ordered child support liabilities. Stage 2 introduced administrative assessments for how much child support is payable. The overall role of the CSS is to facilitate the payment of child support to children of separated parents, whether this is through CSA collecting the payments or by helping the parents to make private arrangements.

Definitions

Stage 1: The first stage of the Child Support Scheme was introduced by the *Child Support Act 1988* (later renamed the *Child Support (Registration and Collection) Act 1988*). This act gave the Commissioner of Taxation the further responsibility, as Child Support Registrar, for collecting child support payments in respect of court orders and court-registered agreements. Stage 1 applies to all cases where parental separation occurred prior to 1 October 1989, and no children were born on or after that date.

Stage 2: The second stage of the Child Support Scheme was introduced by the *Child Support (Assessment) Act 1989*. This act established a further responsibility on the Registrar to administratively assess child support using a formula based upon the income of both parents. These administrative assessments replaced the need for court ordered child support. Stage 2 applies only to parents who separated on or after 1 October 1989, or who have a child born on or after that date.

Child support liabilities can arise in many ways.

Court orders and court registered agreements: parents not eligible for an assessment may apply to the Family Court for an order under the *Family Law Act 1975*. They may also formulate an agreement for child support and have it registered with the Family Court. When registered, it has the same effect as a court order. These orders and agreements can be registered with the CSA. They make up 10% of the CSA's total caseload.

Child support assessments: eligible carers can apply to the CSA for an administrative formula assessment of how much child support they are entitled to. They make up 82% of the CSA's caseload.

Departure orders: clients with child support assessments may apply to the CSA to depart from a formula assessment. There are nine grounds upon which a client can apply for a departure order, including the cost of contact with children and expenditure to cover the children's special needs. Departure orders are made under the authority of the Child Support Registrar. They apply to assessment cases only and make up 3% of the CSA's cases.

Court varied assessments: clients who are dissatisfied with a departure decision can apply to the courts for a further review of their assessment. An application to a court must be made under one of the same nine grounds as an application for a departure order. They apply to assessment cases only and make up less than 1% of the CSA's cases.

Child support agreements: clients can make an agreement which they can register with the CSA. This can modify the assessment formula or modify the way in which payments are made. For example, they may specify that the payer pays the children's school fees or medical insurance as part of their child support liability. Child support agreements make up 4% of the CSA's cases.

Agreements lodged by payees in receipt of certain Department of Social Security (DSS) benefits need to be approved by the Secretary of the DSS and this approval will not usually be given if the payee is agreeing to an amount less than their assessed rate.

The objectives of the CSS are to ensure that:

- parents share in the cost of supporting their children, according to their capacity;
- adequate support is available for all children not living with both parents;
- Commonwealth involvement and expenditure is limited to the minimum necessary to ensure children's needs are met;
- incentives for both parents to participate in the labour force are not impaired; and
- the overall arrangements are non-intrusive to personal privacy as well as simple, flexible and efficient.

For the 1996–97 and 1997–98 financial years, the CSA was located in the Tax Office. However, in October 1998 it was announced that it would be moved to the Department of Family and Community Services.

The CSA is responsible for the administration of two pieces of legislation: the *Child Support (Registration and Collection) Act 1988* and *Child Support (Assessment) Act 1989*. Responsibilities under these acts include:

- registering cases on application from the parent entitled to receive child support including court orders and court registered agreements for stage 1 clients;
- assessing child support payable in stage 2 cases according to a legislative formula;
- collecting payments, through administrative and legal processes; and
- determining applications to depart from administrative assessments.

Australian families may make child support arrangements in one of three ways:

- self-administration where parents decide how much will be paid and how it will be administered:
- private collection where the CSA assists parents by determining the amount payable through a formula assessment or by registering an agreement or a court order, but with parents collecting the child support themselves; or
- CSA collection where the CSA collects the child support.

Registration with the CSA is presently by application from the parent entitled to receive support. Where an assessment is raised, both parents are notified. Assessments are updated annually and may be varied or reviewed in particular circumstances. Where collection is required, payers can make payments directly to the CSA or child support can be deducted from a payer's salary or wages.

A registered child support debt is a debt due to the Commonwealth. As a result, the Registrar is responsible for recovering the debt and has a range of administrative enforcement powers available including the interception of income tax refunds.

Eligible population

Australian Bureau of Statistics figures indicate that the CSA has an eligible client population of 612,937 families, comprising all sole parent families, and step or blended families where one or both of a child's natural or adoptive parents lives elsewhere. In June 1998, 489,042 families were registered with the CSA, indicating that approximately 118,400 families have arrangements entirely without agency intervention.

Most registered cases (90%) are stage 2 cases. In 42% of registered cases, the parents collect the child support privately.

CSA caseload

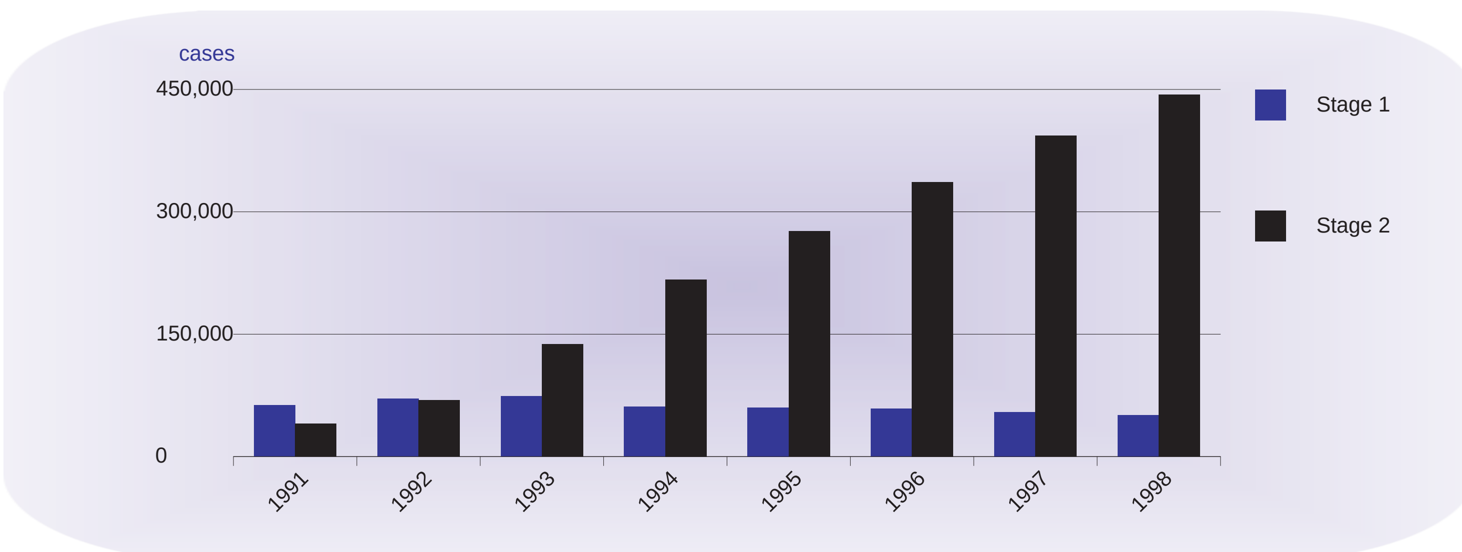
Figure 17.1 shows that the stage 1 active caseload has been falling since 1993, while the stage 2 active caseload has been increasing. Stage 1 cases will continue declining until 2007 when the youngest child eligible under stage 1 reaches 18 years of age.

While the total number of active cases has been increasing, the rate of growth has slowed during the past five years. Between June 1993 and June 1994, the active caseload grew by an average of 5,994 cases per month. Between June 1997 and June 1998, this had reduced to an average of 3,874 cases per month.

The proportion of cases registered with the CSA for private collection are increasing and those registered for CSA collection are decreasing.

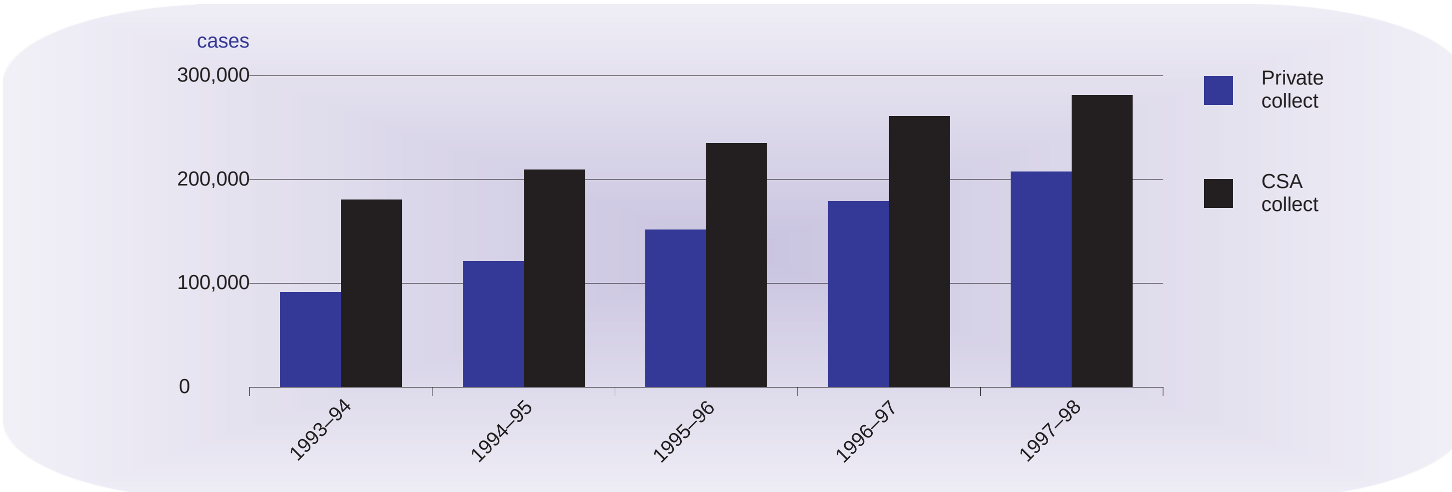
The number of CSA cases is projected to increase to almost 586,000 in 2003. The rate of growth will start to plateau around 2002.

Figure 17.1: CSA active caseload



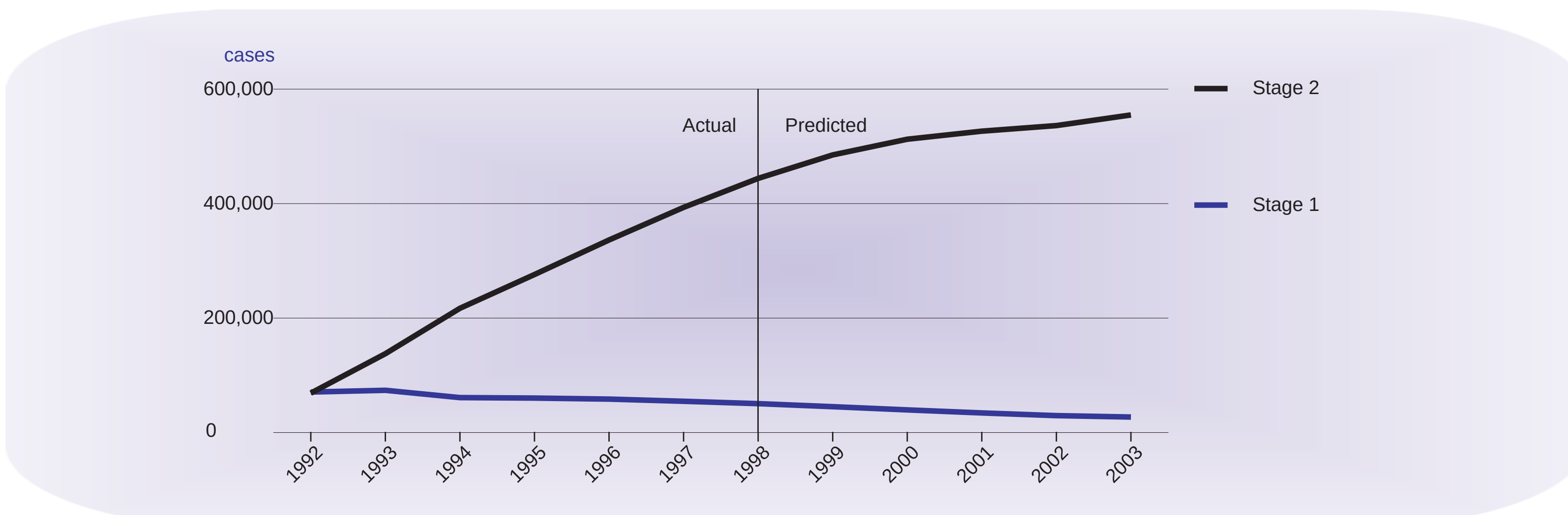
1. (*Child Support Scheme: an examination of the operation and effectiveness of the scheme,* November 1994, Joint Select Committee on Certain Family Law issues. P12)

Figure 17.2: CSA caseload[1]- private collect and CSA collect cases



1. Excludes unfinalised applications

Figure 17.3: CSA caseload projection



Assessment type

The amount of child support a parent is liable to pay may arise from a calculation using one of the formulas set down in the *Child Support (Assessment) Act 1989*, from an agreement or from a court order. While most cases are decided by the CSA using a set formula, there has been an increase in the proportion of cases with a private agreement.

Average weekly liability differs significantly between stage 1 and stage 2 parents. Stage 1 parents are liable for an average of $53.62 per week, compared to $93.03 for stage 2 clients. This large difference is partly due to stage 1 cases being court order cases. While some of these cases have a built-in indexation factor, they do not take into account changes in capacity to pay. It is therefore necessary to apply to the court to amend the order.

On the other hand, stage 2 child support assessments are updated at least annually in line with a parent's capacity to pay. Interestingly, among stage 2 parents, CSA collect cases are liable for $81.27 per week, while private collect cases pay about $22 more per week ($103.25).

Table 17.1: Type of assessment

Type	1991	1992	1993	1994	1995	1996	1997	1998
Formula	91.1	91.9	92.3	90.5	92.1	91.9	91.9	90.3
Agreement	0.9	2.8	2.9	4.2	4.4	4.2	4.2	4.6
Court order	0.3	0.8	0.4	0.4	0.3	0.2	0.2	0.2
Departure[1]	n.a.	n.a.	0.8	2.3	1.4	1.4	1.4	3.7
In processing	7.7	4.4	3.6	2.7	1.8	2.3	2.3	1.2

1. Administrative departure from the assessment commenced in July 1992.

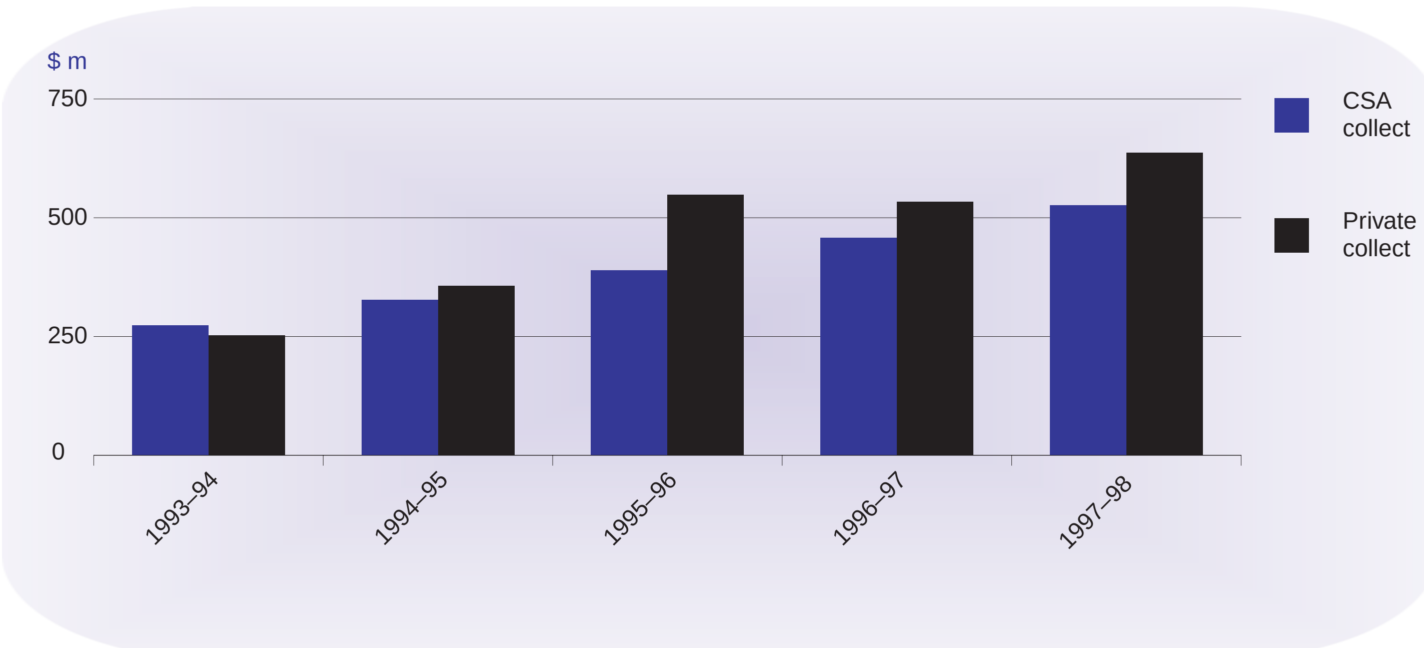
Table 17.2: Average weekly liability

Type of case	Stage 1	Stage 2
	Weekly average per case	Weekly average per case
Total cases	$53.62	$93.03
CSA collect cases	$53.62	$81.27
Private collect cases	$52.29	$103.25

Transfers of child support

The total amount of money transferred between parents in 1997–98 was $1.2 billion. This included $636 million in private payments and $526 million in CSA collections. In each year since 1991, the CSA has had an increase in active caseload and raised more liabilities. In 1991 almost two-thirds (65%) of all child support liabilities raised had been collected. However, by June 1998, this child support collection rate exceeded 83%.

Figure 17.4: Transfers of child support



Profile of CSA clients

In June 1998, most (92%) payees were female. Payees were slightly younger than payers, with median ages of 34 years and 36 years respectively.

Figure 17.5: Age of CSA clients

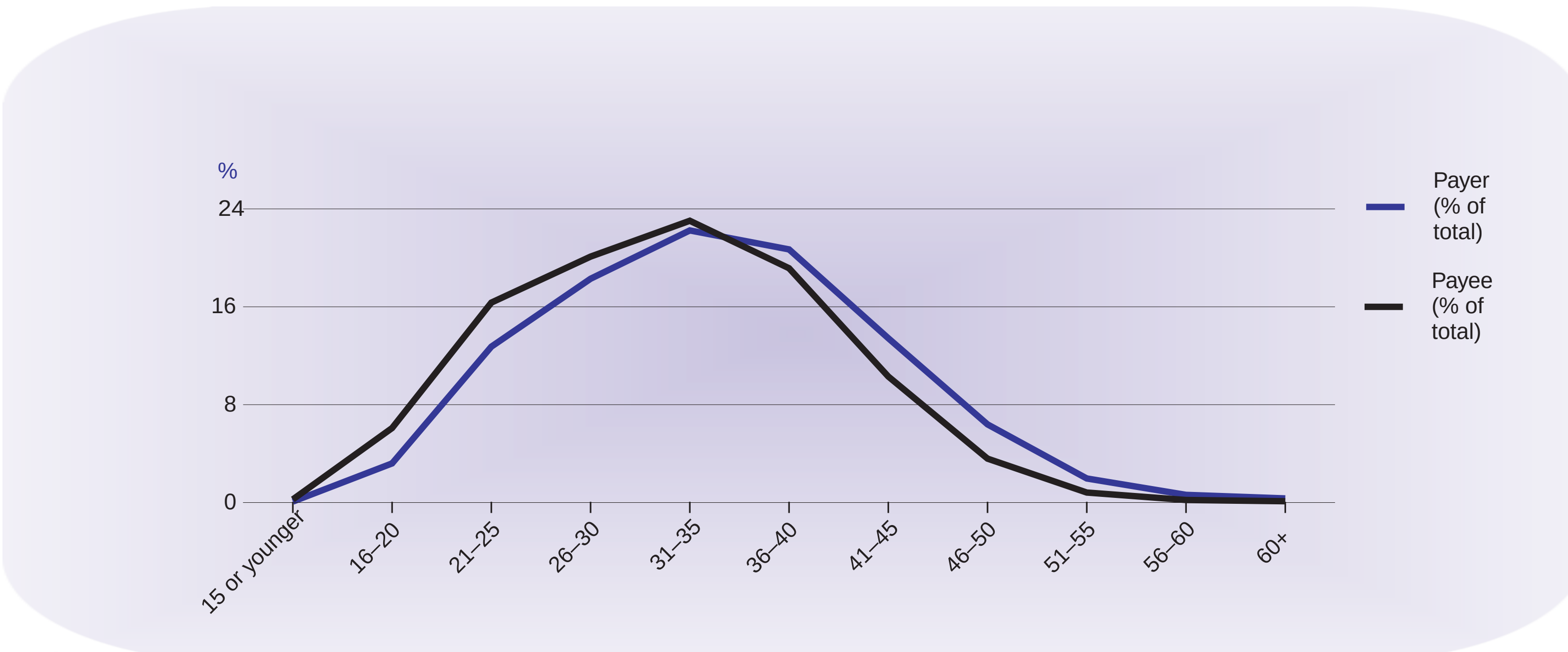
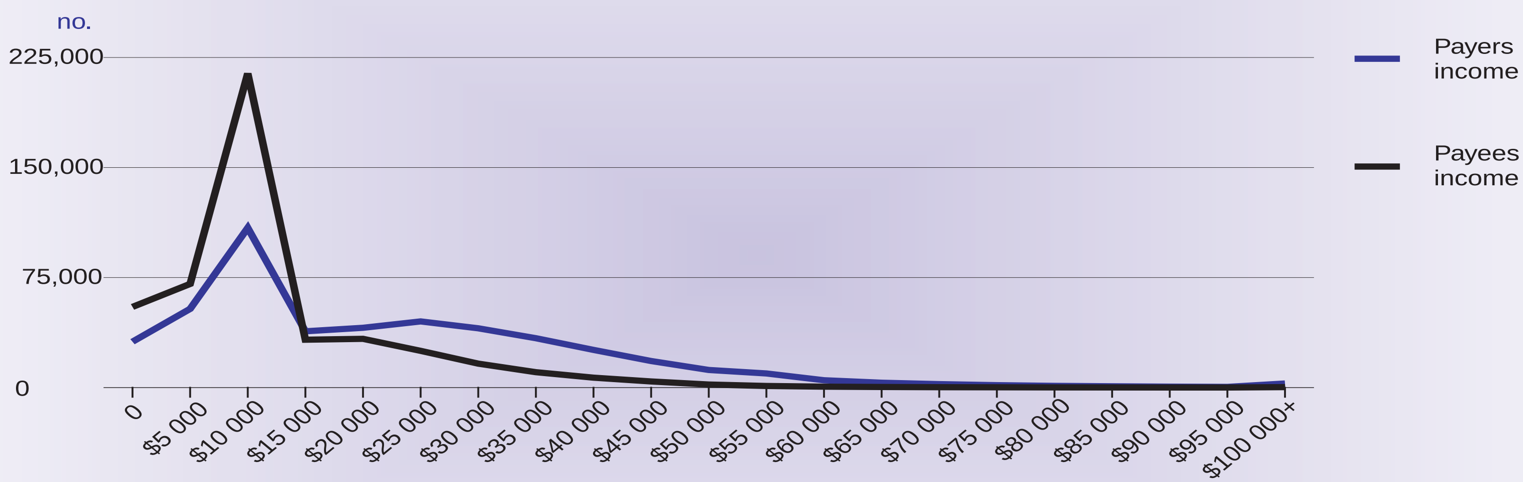


Figure 17.6 shows the distribution of all CSA client's incomes. In most cases this is based on the client's actual taxable income. Where the client has not lodged a tax return, the CSA uses a default income for the client until such time as the actual taxable income details become known. The median child support income for payers is $18,241 which is higher than the median child support income for payees which is $8,994.

Figure 17.6: CSA Income



Children

In June 1998, CSA active cases involved 753,531 children. Of stage 2 cases, 54% of children rely on the CSA for the collection of child support. The majority (60%) of CSA active cases involve one child. A further 29% involve two children and 11% involve three children.

Appendix: Tax return forms

Tax return forms

Individuals
Companies
Funds
Partnerships
Trusts
Fringe benefits tax

CD-ROM Index
Adobe Acrobat (PDF) format

CD-ROM index in Adobe Acrobat (PDF) format

Capital gains

Companies

Fringe benefits tax

Funds

Individuals

Trusts

CD-ROM Index
MS-Excel format

CD-ROM index MS-Excel format

Capital gains

Companies

Fringe benefits tax

Funds

Individuals

Industry benchmarks

Large business

Non-resident withholding taxes

Partnerships

PAYE

PPS

Sales tax

Small business

Trusts

How to use the navigation features of this CD-ROM

1. To see the function of the navigation buttons move your mouse over them now.
2. In full screen mode reveal the standard windows frame with <Escape>
3. In full screen mode reveal the standard navigation buttons with <Ctrl><Shift><B>
4. In full screen mode reveal the standard windows menus with <Ctrl><Shift><M>