Companies

Companies

For taxation purposes, companies include all bodies or associations, corporate or unincorporated, excluding partnerships and non-entity joint ventures. For tax purposes, limited partnerships and some corporate unit trusts and public trading trusts are treated as if they are companies.

Generally, every resident company that derives assessable income, whether sourced within or out of Australia, and every non-resident company that derives assessable income from Australian sources, is required to furnish a return. In the case of a resident non-profit company there is no requirement to furnish a return where taxable income is less than $417.

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.

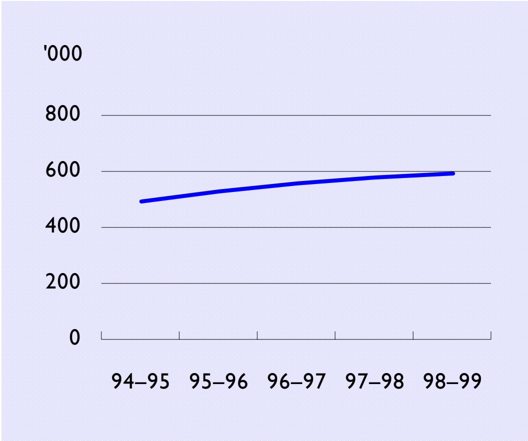
The ATO operates various tax payment schemes based upon a company's likely tax. Likely tax is an estimate provided by the company of the tax payable for the current year. If no estimate of likely tax is provided, then likely tax refers to the amount of tax payable in the most recent prior year for which 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. This means the Commissioner has granted permission for them to prepare their tax returns 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 ATO, companies are clients of either the small business (SB) or large business and international (LB&I) lines. Companies that have total income of $10 million or less and that are not public companies are classified as small businesses and are administered by small business. Public companies operating as bodies corporate are also clients of small business.

Companies that have a total income greater than $10 million, or that are public companies not operating as bodies corporate, are classified as large businesses and are administered by large business and international. Companies that are subsidiaries of a large business are also clients of large business and international.

Figure 6.1: Company tax returns lodged



The statistics in this chapter have been compiled from company tax returns for the 1998–99 income year that were processed before 30 September 2000.

Client population

In 1998–99, a total of 589 624 companies lodged returns in Australia. Most companies (95%) were clients of small business, however, these companies were only liable for 28% of the total company net tax payable. The 5% of companies that were clients of large business, however, were liable for 72% of the total company net tax payable.

The number of companies lodging returns has been increasing steadily over the past five years and since 1994–95, the number of companies lodging returns has increased by 19%. In 1998–99, the total number of companies lodging returns increased by 2% from the previous year.

A total of 132 979 new companies lodged returns in 1998–99, indicating that 120 306 companies either ceased business during the year or failed to lodge a return. Of the companies that ceased business during the year 371 had bad debts totalling $14.8 million; 5191 reported current liabilities worth more than $951 million; 1260

reported trade creditors totalling $61 million; and 737 reported trade debtors of $286 million.

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 that 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: a company that is registered as a pooled development fund and provides development capital to small and medium-sized companies.

Public company: is either a company listed on a stock exchange (not necessarily in Australia); certain cooperative companies; non-profit companies; government bodies established for public purposes; companies controlled by governments; registered friendly societies, trade unions and employee associations; friendly society dispensaries; corporate limited partnerships; or mutual life assurance companies. In addition, any subsidiary of a public company is a public company.

Industry

For those companies where industry was stated, the majority (51%) were in the finance, insurance, real estate and business services. While this industry was most common for both small business companies and large business companies, the next most common industries differed. For large business companies, the manufacturing and wholesale trade industries were the next most common (12% each). For small business companies, the construction (10%) and retail trade (8%) industries were the next most common.

Some 85% of all companies in the finance, insurance, real estate and business services industry were private companies and 3% were public companies. More than 95% of all manufacturing companies were private and 3% were public companies.

Income

In 1998–99, the total company income was $1189 billion. Approximately 81% of this ($969 billion) was returned by companies that were clients of large business. The majority (66%) of all company income came from the sale of goods and services—it accounted for 69% of small business company income, and 65% of large business company income.

Other income, which includes royalties, insurance recoveries, subsidies, employee contributions for fringe benefits tax and government assistance—accounted for a further 17% of total company income. Gross interest accounted for 8% and gross dividends accounted for 7% of total company income.

Expenses

In 1998–99, company expenses totalled $1039.4 billion, up from $977.6 billion the previous year. Almost half (48%) of all company expenses related to cost of sales. Other expenses formed 34% of total company expenses, and interest expenses accounted for 7%.

Cost of sales made up a greater proportion of expenses for large business companies (49%) than

Table 6.1: Companies by industry[1]

Industry	SB	LB&I	Total
	no.	no.	no.
Finance, insurance, real estate & business services	276 150	12 746	288 896
Construction	52 892	1 076	53 968
Retail trade	45 787	1 809	47 596
Manufacturing	39 458	3 291	42 749
Wholesale trade	26 849	3 279	30 128
Health & community services	21 520	253	21 773
Transport & storage	21 705	885	22 590
Primary production	15 169	529	15 698
Personal & other services	14 508	299	14 807
Accommodation, cafes & restaurants	10 949	740	11 689
Cultural & recreational services	10 283	463	10 746
Mining	2 201	1 332	3 533
Communication	2 927	182	3 109
Education	2 424	52	2 476
Electricity, gas & water supply	543	144	687
Total industry stated	**543 365**	**27 080**	**570 445**
Industry not stated	17 639	1 540	19 179
Total	**561 004**	**28 620**	**589 624**

1. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification system. Prior to 1995–96, the Australian Standard Industrial Classification system was used. Therefore, it is difficult to do any long time series analyses by industry because the industry groups are not directly comparable.

for small business companies (45%). Interest expenses accounted for 9% of large business company expenses, compared to just 2% for small business companies.

The differences in the types of income and expenditure for small and large business companies can be attributed to economies of scale and industry concentration. For example, twice as many small business companies (9%) were in the construction industry, compared to large business companies (4%). Given that the construction industry is relatively labour-intensive, small business companies had a higher proportion of external labour cost (5% compared to 2%) and superannuation expenses (2% compared to 1%) than large business companies.

Rent expenses also comprised a higher proportion of total small business companies' costs due to large numbers of small wholesale and retail traders.

Net tax

Companies were liable for $21.4 billion in net tax for the 1998–99 income year. This amount waspayable in instalments during the 1998–99 and 1999–2000 financial years. Taxes paid by companies represented 15% of total ATO collections in the 1998–99 financial year, and 16% in the 1999–2000 financial year. Company net tax payable has increased by $7.6 billion since 1994–95.

Table 6.2: Company sources of income

Source of income	SB		LB&I		Total	
	$m	%	$m	%	$m	%
Sales of goods & services	152 535	68.9	634 222	65.5	786 757	66.1
Gross interest	2 604	1.2	87 741	9.1	90 346	7.6
Gross dividends	2 120	1.0	85 209	8.8	87 329	7.3
Gross rents	5 079	2.3	9 805	1.0	14 884	1.3
Partnership/trust income	6 234	2.8	5 565	0.6	11 799	1.0
Other income[1]	52 742	23.8	145 966	15.1	198 708	16.7
Total income	**221 314**	**100.0**	**968 509**	**100.0**	**1 189 823**	**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.

Table 6.3: Types of company expenses

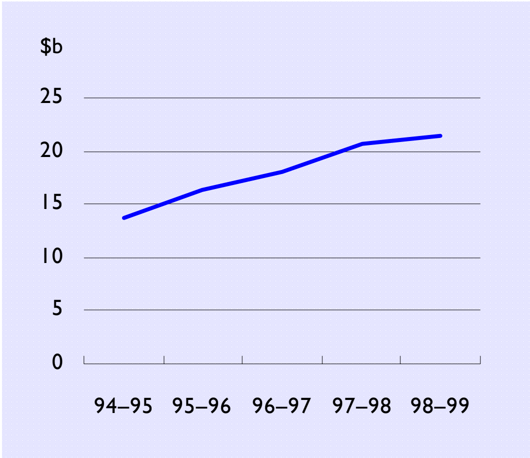
Type of expense	SB		LB&I		Total	
	$m	%	$m	%	$m	%
Cost of sales	92 647	45.0	407 577	48.9	500 224	48.1
Interest	4 143	2.0	73 802	8.9	77 945	7.5
External labour	10 382	5.0	19 944	2.4	30 326	2.9
Depreciation	4 616	2.2	21 222	2.5	25 838	2.5
Rent	5 371	2.6	9 512	1.1	14 883	1.4
Repairs & maintenance	2 041	1.0	8 639	1.0	10 680	1.0
Superannuation	4 734	2.3	4 927	0.6	9 661	0.9
Motor vehicles	3 608	1.8	2 741	0.3	6 349	0.6
Lease payments	1 483	0.7	3 830	0.5	5 313	0.5
Royalty	271	0.1	3 752	0.5	4 023	0.4
Bad debts	395	0.2	2 975	0.4	3 370	0.3
Other	76 064	37.0	274 743	33.0	350 807	33.7
Total	**205 755**	**100.0**	**833 664**	**100.0**	**1 039 419**	**100.0**

Calculating company net tax

Expenses are deducted from income to give operating profit or loss. Extraordinary items and reconciliation items are then applied to operating profit or loss to calculate taxable income or loss. The general company tax rate for the income year ended 30 June 1999 (36%) is then applied to taxable income to calculate gross tax. The rebates and credits are subtracted from gross tax, leaving net tax.

The greatest proportion of company net tax was payable by public companies. Public companies accounted for 53% of total net tax—equivalent to $11.3 billion—yet represented only 3% of all companies. Most companies (90%) were private companies, which accounted for 41% of total company net tax. The remaining companies, classified as ‘other’, were liable for 6% of total company net tax.

Figure 6.2: Company net tax



Although large business companies represented only 5% of all companies, they accounted for 72% of total company net tax.

Table 6.4: Net tax payable by company type

Company type	Companies	Net tax[1]	Average net tax[2]
	no.	$m	$
Private company	532 280	8 832	16 594
Strata title	32 863	4	132
Public company	15 987	11 322	708 211
Cooperative	6 176	103	16 721
Non-profit organisation	1 316	521	396 227
Registered organisation	301	631	2 095 321
Limited partnership	269	10	38 267
Corporate unit trust	298	1	3 894
Public trading trust	114	4	38 514
Pooled development fund	20	1	46 106
Total	**589 624**	**21 431**	**36 347**

1. Rounded figures.

2. Average net tax figures are derived from actual (not rounded) net tax figures and company numbers.

Table 6.5: Net tax payable by industry[1]

Industry	SB	LB&I	Total
	$m	$m	$m
Finance, insurance, real estate & business services	3 337	7 057	10 394
Manufacturing	557	2 645	3 202
Wholesale trade	373	1 072	1 445
Mining	22	1 175	1 197
Retail trade	390	701	1 091
Communication	19	1 058	1 077
Transport & storage	151	560	711
Construction	423	259	682
Health & community services	124	89	213
Cultural & recreational services	74	287	361
Primary production	156	109	265
Accommodation, cafes & restaurants	114	80	194
Personal & other services	85	44	129
Electricity, gas & water supply	5	24	29
Education	16	2	18
Total industry stated	**5 846**	**15 162**	**21 008**
Industry not stated	78	345	423
Total	**5 924**	**15 507**	**21 431**

1. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification system. Prior to 1995–96, the Australian Standard Industrial Classification system was used. Therefore, it is difficult to do any long time series analyses by industry because the industry groups are not directly comparable.

Nearly half (48%) of total company net tax was payable by those companies in the finance, insurance, real estate and business services industry. The net tax derived from this industry grouping totalled $10.4 billion. Large business companies accounted for 68%, or $7.1 billion of this, but comprised only 4% of total companies in this industry.

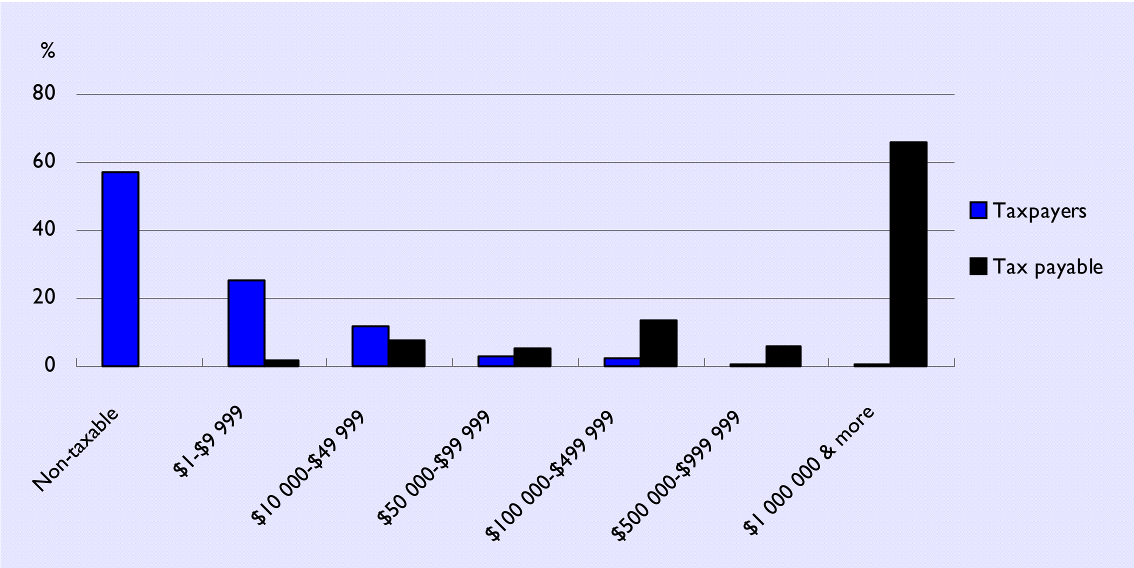
Less than 1% of all companies paid $1 million or more in net tax, however, these companies were liable for 66% of the total net tax paid.

In 1998–99, a total of 337 129 (57%) companies were non-taxable. Non-taxable companies include non-trading companies, those lodging nil returns and companies operating at a loss.

Non-taxable companies

There are several reasons for a company being non-taxable. The main reason in 1998–99 was due to losses made on trading activities.

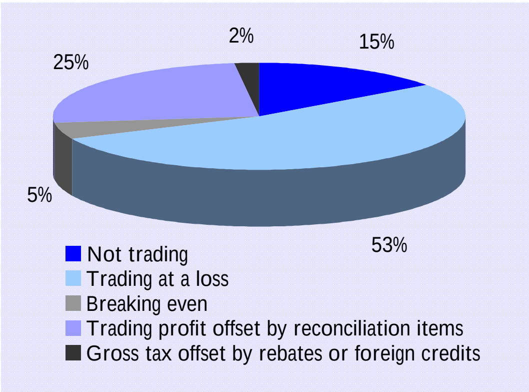
Figure 6.3: Companies by grade of net tax payable



Companies who made losses on trading activities accounted for 53% of non-taxable companies. Losses can be due to poor trading performance (such as poor sales performance or poor cost control performance) or due to the nature of their activities.

One-quarter of non-taxable companies had trading profits, based on their trading activities, which were offset by adjustments made by reconciliation items. These items included loss utilisation and reconciliation from accounting to taxable profits (including deduction of depreciation). Companies that were not actively trading (that is, that reported no expenses, no income and consequently no profit or loss for the income year) comprised 15% of all non-taxable companies. Companies that broke even accounted for 5% of non-taxable companies.

Figure 6.4: Non-taxable companies



Other companies were non-taxable because their gross tax amounts were offset by rebates or foreign credits. The mining industry had the highest proportion (72%) of companies that were non-taxable. This reflects the large number of mining exploration companies that engage in activities that incur expenses, but as yet do not produce revenue.

Company balance dates

The financial year runs from 1 July to 30 June. However, companies report their business activities in accordance with the income year. For the majority of companies (98%), the income year is the same as the financial year. However, those companies where the income year is different to the financial year use a substituted accounting period.

While companies using a substituted accounting period account for just 2% of all companies, they remit 36% of the total income tax. Companies may use a substituted accounting period if they are owned by a multinational and the holding company wishes to have all members of the corporate group operate under the same financial year. For example, the traditional financial year in the United States follows the calendar year, while the British financial year ends in March.

Table 6.6: Non-taxable companies by industry

Industry	Companies	Proportion of companies in each industry that were non-taxable
	no.	%
Finance, insurance, real estate & business services	156 228	54.1
Construction	29 941	55.5
Retail trade	27 301	57.4
Manufacturing	23 894	55.9
Wholesale trade	17 064	56.6
Health & community services	13 896	63.8
Transport & storage	13 518	59.8
Primary production	10 238	65.2
Accommodation, cafes & restaurants	7 363	63.0
Personal & other services	8 961	60.5
Cultural & recreational services	6 932	64.5
Mining	2 542	72.0
Communication	1 918	61.7
Education	1 612	65.1
Electricity, gas & water supply	432	62.9
Industry not stated	15 289	79.7
Total	**337 129**	**57.2**

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 tax rates

The following rates of tax are applicable to company income in the 1998–99 income year.

Private companies (other than life companies, pooled development funds and registered organisations)	Rate: 36%
Public companies[1] (other than life companies, pooled development funds and registered organisations)	Rate: 36%

1. Public includes non-profit companies which are not liable to tax unless taxable income exceeds $416. Where taxable income is $1204 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%
— RSA component	Rate: 15%

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

• Companies that are pooled development funds during the whole year of income:	
- on small to medium-sized enterprise income component	Rate: 15%
- on unregulated investment component	Rate: 25%
• Companies that become pooled development funds during the income year and remain as such at the end of the income year:	
- on small to medium-sized enterprise income component	Rate: 15%
- on that part of the taxable income that does not exceed the pooled development fund component	Rate: 25%
- on that part of the taxable income that exceeds the pooled development fund component	Rate: 36%
• companies that cease to become a PDF during the year	
- entire amount	Rate 36%

Credit unions

a. small credit unions—with a notional taxable income of less than $50 000	Rate: 36%
b. medium credit unions—with a notional taxable income of $50 000– $149 999—the amount by which the taxable income exceeds $49 999 less any rebate or credit to which the company is entitled	Rate: 54%
c. large credit unions—with a notional taxable income of $150 000 and more	Rate: 36%

Company tax reform

The Government is redesigning the company tax regime as part of the New Business Tax System. While some changes took effect on 1 July 2000, other measures are yet to be implemented.

Two key elements of the New Business Tax System operating in the 2000–01 financial year, are the reduction in the company tax rate and the pay as you go scheme. While these reforms do not affect the statistics in this chapter, they will affect statistics for 2000–01 and future editions of this publication.

Detailed tables

The following detailed tables on companies can be found on the CD-ROM attached to this publication.

Table 1:	Company type by grade of net tax
Table 2:	All items by grade of taxable income and company type
Table 3:	Broad industry by grade of total income
Table 4:	All items by industry
Table 5:	Number of companies by industry, business lines & company type
Table 6:	Items for income years 1990–91 to 1998–99
Table 7:	Percentage distribution by grade of taxable income
Table 8:	Income tax paid by balance date
Table 9:	All items by grade of total income & company type