

# Quick Guide

## What you need to know about **PAYG & BAS** Understanding the new tax system

### OVERVIEW

- If you have registered for an Australian Business Number (ABN) and the Goods and Services Tax (GST) you will be required to submit a "Business Activity Statement (BAS)" on a monthly or quarterly basis.
- This brochure is a quick guide to understanding the BAS. For more detailed information on how to fill out your BAS, see the Australian Taxation Office's BAS instructions.
- The BAS must be lodged within 21 days of the end of the period (for quarterly returns the lodgements dates have been extended for 2000-2001, with an extra 3 weeks for the first return, 2 weeks for the second and 1 week for the third return).
- The new tax system started on 1 July 2000. For businesses there are two major changes.
  1. The GST has replaced wholesale sales tax and certain other indirect taxes and duties.
  2. A new tax collection system, known as Pay As You Go (PAYG) has replaced the PAYE system, provisional tax system, company tax system, prescribed payment system, the royalty and interest withholding systems, and the reportable payment system.
- Good records are the key to a healthy bottom line and will make it easy to fill in your BAS.

### BUSINESS TIPS

To understand your business, you will need processes that:

- *Identify events that happen in your business*
- *Measure the results of what happens*
- *Collect details about what happens – financial and non-financial*  
*Summarise details into standard formats – by hand or computer.*

Efficient systems simplify the process of managing the GST and help you:

- *Know exactly how much GST you have to pay*
- *Identify what you are paying it for*
- *Claim back the full amount entitled to you.*

*This guide is intended to provide small businesses with a brief overview of the new tax system.*

*This material is current as at 10 July 2000*

## BUSINESS TIPS

You need to ensure that you have sufficient funds to cover GST, PAYG and other tax obligations when these need to be paid.

Some businesses are opening separate bank accounts for their tax obligations. Transferring GST and PAYG collections into a separate account reduces the likelihood of spending this money.

Quoting your ABN on all your invoices ensures that other businesses do not withhold 48.5% from the payments they make to you.

Invoices also need to quote:

- *The GST inclusive price of the item*
- *The words "tax invoice" stated prominently*
- *The date of issue of the tax invoice*
- *The name of the supplier*
- *The name of the recipient*
- *The address or the ABN of the recipient*
- *A brief description of each thing supplied*
- *The quantity of the goods or the extent of the services supplied*
- *The statement "The total price includes GST" (when GST is exactly 1/11th of the total price) or the GST amount.*

Businesses use a variety of documents such as receipts, dockets and invoices to use as evidence that a transaction has taken place. Whether your systems are paper or electronic you need to keep and record these documents.

## KEY FEATURES OF THE BAS

Page 1 of the BAS form has the following boxes

### Goods and Services Tax payable

This is the amount of GST that you collected from your customers. For most businesses it represents 1/11th of the amount of total sales.\*

### Credit for Goods and Services Tax Paid

This is the amount you will get a credit for if you have Tax Invoices from ABN and GST registered businesses.

### Pay As You Go Withholding

Means paying amounts you withhold from others. Replaces PAYE and the prescribed payment system. Includes amounts you withhold from payments to other businesses that do not quote their ABN.

### Special Credit Wholesale Sales Tax

You can claim a credit for wholesale sales tax (WST) paid on eligible stock on hand at 1 July 2000. You must claim this special credit on or before the January 2001 BAS.

### Pay As You Go Instalment

PAYG instalment replaces a range of taxes. For most businesses the key impact is that the PAYG instalment system replaces provisional tax. Unlike provisional tax, PAYG instalment is based on current year's instalment income.

The special credit represents the amount of embedded WST – which you can ascertain from your wholesale taxing point.

Where the WST cannot be readily ascertained the ATO has agreed to a calculation method:

For a retail sale where the invoice doesn't show the WST, you reduce the purchase price by 50% to arrive at the taxable value and then apply the appropriate WST rate (listed at [www.ato.gov.au](http://www.ato.gov.au)).

### Fringe Benefits Tax Instalment

FBT is a tax payable by employers in respect of fringe benefits provided to employees. FBT instalments are payable if the previous year's total liability is equal to or exceeds \$3000 per annum (otherwise it is a single annual payment).

*\*This guide does not address the requirements in relation to GST-free supplies, input taxed supplies, the wine equalisation tax and the luxury car tax. Further details are available in the ATO BAS instructions.*

### KEY FEATURES OF THE BAS

Page 2 of the BAS form, the Calculation Sheet, has the following boxes

#### Supplies you have made

Total taxable supplies (things you sell).

Divide by 11 to determine the GST payable, to be transferred to page 1.

#### Acquisitions you have made

Total creditable acquisitions and importations (things you buy).

Divide by 11 to determine input tax credits, to be transferred to page 1.

#### PAYG withholding

This is the amount you deduct from employee wages and is equivalent to the former PAYE group tax.

#### Amounts withheld from payment of invoices where no ABN is quoted

If you conduct business with another business and they don't quote a valid ABN, then you must withhold 48.5% of the invoice amount and pay this to the ATO.

#### PAYG instalment Instalment Income

#### Rate

You work out your instalment income (including gross sales, gross fees for services, interest etc) for the period and then multiply this by the ATO "instalment rate" which will be printed on the form. If you are unhappy with the ATO rate it can be varied - details are available in the ATO BAS instructions.

#### Fringe Benefits

The ATO will advise you of the FBT instalment amount (based on your previous year). If appropriate you can vary this rate - see ATO BAS instructions for details.

**Some information on this page is not required if you have an appropriate accounting system. You should refer to pages 30 & 31 of the ATO BAS instructions for further information.**

### BUSINESS TIPS

If your turnover is \$1,000,000 or less per year, you can choose whether your record system is cash or non-cash (accrual). Under cash accounting you only record transactions when money (cash, cheques, or credit card transactions) goes into or out of your business. For example, when you receive money in from selling goods and services or pay money out for buying goods and services.

Many medium-sized businesses use a non-cash (accrual) accounting system because it allows them to:

- Record transactions as they happen
- Report comprehensive information about each transaction
- Account for the exchanges of all resources, including those where no cash is involved.

If you are using a non-cash accounting system it is important that you consider the conditions of sale to ensure that you have sufficient funds to meet your obligations under the new tax system.

## Notes

- The key to the new tax system is the ABN. Most businesses, including micro-businesses, will benefit from having an ABN.
- Registration for the GST is mandatory for businesses with a turnover of \$50,000 per annum. Registration for the GST is part of the ABN process. Once registered for the GST, a business pays GST on the things it buys (but gets this back as input credits) and charges its customers GST. The difference between the amount collected by a business and the amount paid by that business is then paid to the Australian Taxation Office.
- For businesses that have an ABN and are GST registered, GST is charged at the rate of 10%, except for "GST-free supplies" and "input taxed supplies".  
Examples include:

### GST-free supplies

- *Basic food*
- *Most health and education services*
- *Certain supplies by charitable institutions*
- *Amounts for export sales*

### Input Taxed supplies

- *Financial services*
- *Residential premises*
- *School tuckshops and canteens*

**GST Start-Up**  
Assistance Office

## FOR FURTHER INFORMATION

### BUSINESS INFORMATION

- GST Start-Up Assistance Office: Ph 13 30 88
- Internet: [www.gststartup.gov.au](http://www.gststartup.gov.au)

### PRICES

- ACCC: Ph 1300 302 502
- Internet: [www.accc.gov.au](http://www.accc.gov.au)

### TAX

- ATO: Ph 13 24 78
- Internet: [www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)