



A GUIDE TO MANAGING CHANGE IN BUSINESSES

including

THE NEW TAX SYSTEM



GST Start-Up
Assistance Office



PKF

Important information concerning this material – please read

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WHAT'S THIS ALL ABOUT ?

Your business is not just a job. One thing certain about business today is change – it's everywhere. Manage change well and your business will thrive, otherwise it will only survive, or even die.

Changes which have impacted businesses over recent years include increased trading hours, revised industrial awards and conditions, introduction of employer sponsored superannuation for employees, the use of credit cards, increased use of computers and the Internet. While these changes have significantly altered the way businesses are managed, the fact is that most businesses continue to prosper. It will be the same once The New Tax System starts.

This booklet has been prepared to help you manage change in your business. It is a summary of some key management issues and gives practical **Tips** and **Traps** to help you manage change. Issues which are covered include:

- A. Keys to success for businesses and how planning helps to run your business;
- B. Key functions of all businesses, large and small, such as marketing, operations, new ideas, staff and finance; and
- C. The main changes occurring under The New Tax System including the ABN, BAS, GST, and the PAYG systems.

A. KEYS TO SUCCESS

Successful businesses have some or all of the following in common:

- understand the connections between the key business functions;
- have a good accounting system and use frequent financial reports to monitor sales and costs;
- are different in some way from competitors ie. have an effective **Sustainable Competitive Advantage (SCA)**;
- are prepared to change;
- set targets for the business;
- position, position, position – have a good location;
- have an efficient and effective business/factory layout;

A. KEYS TO SUCCESS

- ❑ understand what the customer wants eg trading hours;
- ❑ use effective marketing; and
- ❑ have effective sales people.

How Planning Helps Run The Business

A plan for either the whole business, or a particular part of the business, has the following benefits:

- ❑ acts as a checklist of things to do;
- ❑ helps ensure that all the issues are thought about;
- ❑ lets others (staff, banks etc) know what's going on; and
- ❑ helps avoid one change causing problems in other areas eg. to expand the range of products there must be enough shelf space in the business.

Planning tips

- ✓ Do a plan for the whole business – it doesn't need to be more than one page long.
- ✓ Use the plan regularly. Don't file it away. Use it as an agenda for internal meetings.
- ✓ Keep the plan updated. If the business is not performing, change the plan.
- ✓ Tell everyone about the plan – staff, family, suppliers. Put a copy on the noticeboard. The more people you tell about your plans, the more likely they will become reality.
- ✓ Measure Measure Measure! If you don't measure it, you can't manage it. Find a way to measure the performance of each key item in the plan.

Planning traps

- ✗ Don't let your plans get too detailed. Break large plans into several smaller ones, then only focus on the really important ones first.
- ✗ Do not ignore your own staff – get everyone in your business involved in developing it. Sometimes, the staff know more about parts of the business than the owners. Listen to their suggestions.

What Is Your competitive Edge or Sustainable Competitive Advantage (SCA)?

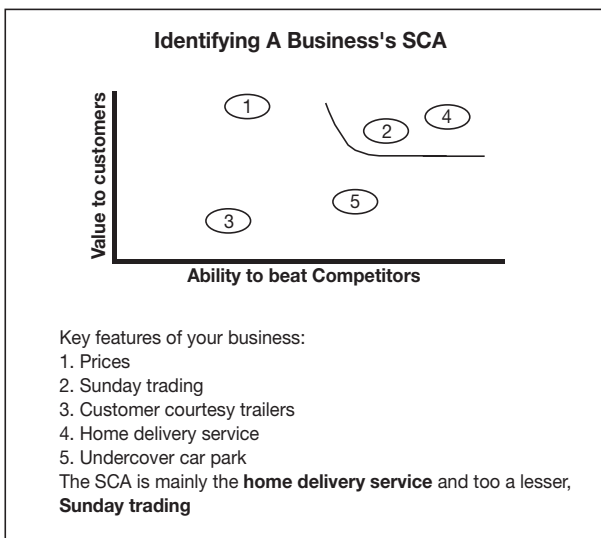
Above everything else, your business needs sales. Every time you make a sale, there is a reason why that customer chose to buy from you. In other words, that customer perceived that your sale offer was better than that offered by your competitors. Those things which make your business different are called your competitive edge. These points of difference are known as your Sustainable Competitive Advantage (SCA).

It is important to understand the SCA concept for at least two reasons.

1. Your current SCA drives the rest of your business management. You should promote it in your advertising and deliver it through your operations.
2. The SCA model will help you identify new market opportunities into which you can expand profitably.

Your SCA can change – customer needs and wants change and competitors change their ways. Therefore it is important to review your SCA regularly, and if necessary change it to keep it effective.

To find your SCA, plot the 5 to 10 key sales features of the business on the diagram by rating each, on a scale of 1 to 10, in terms of their value to your customers and also how you compare to your competitors, then simply take the 2 or 3 in the top right hand corner of the model – these 2 or 3 features are your SCA.



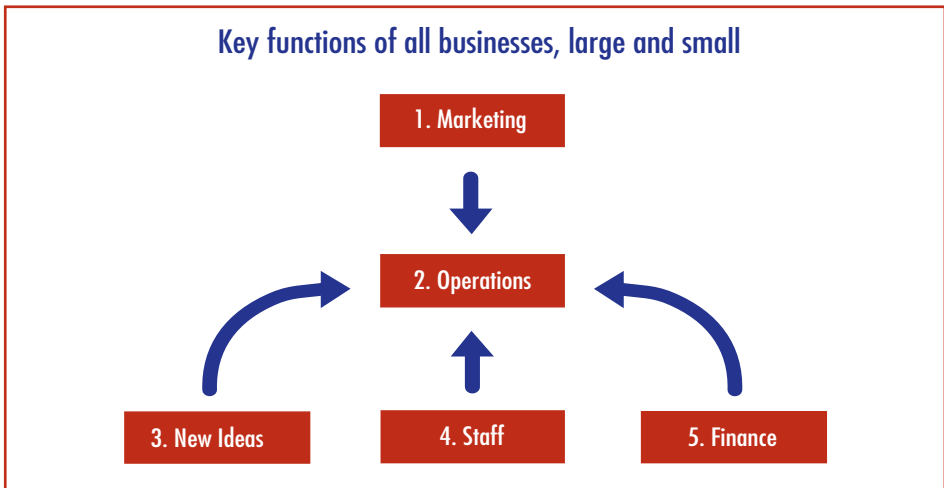
B. KEY BUSINESS FUNCTIONS

To properly manage any business, it is essential to understand the key business functions, and how these functions relate to each other.

The boxes in the following diagram show the key functions of a business, be it large or small. Marketing is what the business does and the rest of the diagram is about how the business does it. The arrows show how the elements link together.

Marketing means deciding what products to sell at what prices with what promotion, in what place. For example, sell low quality products at cheap prices advertised in local paper to young families in the local area. This is the marketing mix.

The marketing mix shapes the business operations – high priced products must be displayed accordingly etc. The remaining three functions, New Ideas, Staff and Finance must all support the business' operating style. New Ideas is about improving the way all the day to day operational activities are done in the business. The Staff function refers to the management of all the issues to do with the people who work in the business. Finance is about making sure there is enough money for the business to function properly.



It all starts with the marketing mix. The smaller the business, the more important it is to be different, other than by price – your big competitors can buy cheaper and therefore will always be able to beat your price.

1. MARKETING

Any successful business is dependent on the effectiveness of its marketing mix. The marketing mix is the particular combination of what products at what prices with what promotion in what place your business sells.

Make sure the marketing mix fits together eg. the location will attract a certain type of customer, and your prices must suit that sort of customer.

Your sales reflect the effectiveness of your marketing mix. Analyse your sales and be prepared to change your marketing mix.

Marketing tips

- ✓ Know your business' SCA and use it for marketing and operations management.
- ✓ Watch your competitors.
- ✓ Know which products sell best and concentrate your time and money on them.
- ✓ Try and get exclusive rights to products, use customer loyalty programs, direct mailing promotions or newsletters about new products or specials.
- ✓ Train your sales people to know your products.
- ✓ Make sure your ads reach your target customers.

Marketing traps

- ✗ Don't waste money on advertising that is not increasing sales. Make sure that the increased profits are greater than the cost of the ads. If the ads don't work, change them.
- ✗ Don't over-promise. Be realistic about what you can deliver and when you can deliver it. Talk to the customer if you can't deliver what you promised on time.

2. OPERATIONS

Operations is all the things your business does every day in providing its goods or services and generating cash – make sure your operations are consistent with your marketing mix.

For example, if your marketing mix includes low prices, then manage the operations of your business to minimize all costs eg. distribution, labour etc.

Operating Tips

- ✓ Order smaller volumes of stock more frequently so you have less money tied up in stock on the floor (but also consider the impact on sales of stock-outs and the impact on volume discounts from suppliers).
- ✓ Keep a record of what you order and check all of your deliveries.
- ✓ Keep your showroom and displays, warehouse, factory, office and surrounding yard clean and tidy. Make sure you can easily view your entire salesroom to minimize theft.
- ✓ Get adequate insurance.

Operating traps

- ✗ Customers can't see stock in the store room – get it on the shelves.
- ✗ Avoid keeping excessive stock on hand. This ties up your working capital.
- ✗ Don't hang on to obsolete stock, reduce the price and get rid of it.

3. NEW IDEAS

Always look for ways to improve the way your business undertakes its daily activities to stay ahead of competitors. Systems which you may be able to improve include :-

- customer payment system;
- new processes, tools and equipment to speed up work, reduce waste or improve quality;
- quality control system; and
- accounting system and management reports.

New Ideas tips

- ✓ Ask customers questions about your business – what they like and don't like.
- ✓ Be active in your industry & local associations.
- ✓ Keep up with legislation.
- ✓ Listen to your staff – they always have ideas.
- ✓ Get advice from an accountant / business adviser who knows your industry.

New Ideas traps

- ✗ Give new ideas a chance to work before you scrap them.

4. STAFF

Staff are assets – your business invests a lot of money training them and good staff are often harder to replace than equipment. Selecting and keeping good staff that fit with the business plans is critical to the success of your business.

Treat your staff fairly – it will pay you back with:

- ❑ higher motivation and loyalty;
- ❑ more suggestions on how to improve the business;
- ❑ low staff turnover; and
- ❑ reduced industrial and union hassles.

Staff tips

- ✓ Provide your staff with clear leadership on what you want the business to achieve.
- ✓ Involve staff in your planning processes – they like it and they know a lot about your business.
- ✓ Have written policies and procedures for staff to refer to if they are unsure of how to do their jobs.
- ✓ Have a training program that works towards matching the skills of staff with the needs of the business.
- ✓ Pay fair market remuneration – include incentive systems wherever possible.
- ✓ Use performance review processes that focus on career development.
- ✓ Know the seasonal variations that affect your business and plan your rosters and annual leave approvals accordingly.

Staff traps

- ✗ Don't treat staff unfairly, otherwise you'll lose their respect and commitment.
- ✗ Don't ignore your legal obligations with regard to:-
 - Discriminatory practices,
 - Dismissal processes, and
 - Occupational health & safety.

5. FINANCE

Accounting systems measure your business performance and assist you to plan future cash flows and profitability. If you don't measure it, you can't manage it.

You must know how much money you have invested in your business and whether the business is earning a return on that money at least equal to its cost.

Reports are not worth much if you don't know what they mean – if you don't understand Profit and Loss or Balance Sheet reports do a bookkeeping course to learn.

Gone are the days when a business could be properly run by getting financial reports once a year. Things change quickly these days – new competitors show up, new products are released, supplier prices change, specials are offered by manufacturers etc. To properly manage your business you should get financial reports at least every quarter, better still each month.

Finance tips

- ✓ Understand what essential information you need to manage your business and include it in management reports. Know your industry norms. Analyse your ratios and use them to help you make decisions. The information you need might include:
 - sales and gross margin per product,
 - labour costs to sales,
 - rent to sales,
 - total overheads to sales,
 - income tax and GST payable,
 - return on net assets, and
 - cost of capital.
- ✓ Know the business break even sales ie. what sales are required for the business to cover all expenses, including paying fair wages to working owners.
- ✓ Understand your reports – talk to your accountant or do a course. Learn how to read a balance sheet.
 - know how much money you have tied up in your business,
 - keep track of clients that owe you money – failing to collect accounts is costing you money,

- know what payments are due to banks and finance companies, and
- keep a current list of who you owe money to, and look for prompt payment discounts.
- Use technology to your advantage eg. E-commerce, electronic banking, computers.
- Compare actual to budgeted figures. Analyse variances and make changes to fix problems.

Finance traps

- ✗ Avoid more debt than you can comfortably service.
- ✗ Failing to understand your legal structure may result in you making transactions which create big tax problems.
- ✗ If you are not aware of your financial position, you may miss out on business opportunities.
- ✗ Not keeping track of the payments that you will need to make to the ATO and others, e.g. suppliers.

C. THE NEW TAX SYSTEM (TNTS)

Given that your business is managed with good business practices as described above, you should find it relatively easy to deal with The New Tax System (TNTS).

Principal features of TNTS are:

- reduction in personal and company income tax rates;
- no more sales tax;
- introduction of an Australian Business Number (ABN);
- introduction of a Goods & Services Tax (GST), which replaces Wholesale Sales Tax & some other taxes, but not income tax; and
- a new way of collecting income tax called Pay As You Go (PAYG).

Australian Business Number (ABN)

Every business, regardless of the amount of sales, must get an ABN because:

- without an ABN, other business customers you sell to must deduct 48.5% from any amount they pay you. Your business gets this back in its next tax

return (not GST return), but in the meantime your cash flows would be badly effected;

- ❑ the business must have an ABN to register for the GST, and GST registration is compulsory if turnover exceeds \$50,000; and
- ❑ your business Tax Invoices must include its ABN.

Get registration forms from Newsagents, Post Offices, Banks or your accountant. You'll get your ABN quicker if you lodge electronically, either directly on the Internet or via your accountant.

ABN tips

Special industry issues for: Health Care Professionals, Subcontractors, Taxi & Limo Operators, Trades Persons, Transport Operators & Travel Agents

- ✓ You must deduct 48.5% of any payment to another business if they do not have an ABN – you send this deduction to the ATO as part of your BAS.

ABN traps

- ✗ If you supply products or services to another business and you don't give them your ABN, they must withhold 48.5% tax from any payments to you. Make sure you supply your ABN to all of your business customers – it doesn't cost anything to get an ABN.

Business Activity Statement (BAS)

BAS stands for **Business Activity Statement**. It is a new simplified 2 page ATO form that summarises a number of taxes.

What does the BAS do?

- ❑ it summarises your GST activities and calculates the amount to be paid to the ATO or refund to you;
- ❑ it calculates your PAYG income tax payment based on a tax rate determined by the ATO;
- ❑ it summarises the PAYE tax (or Group tax) withheld from your employees' salaries; and
- ❑ it adds all of the above together to calculate the net amount payable by or refundable to you.

BAS tips

- ✓ If you have a good bookkeeping system in place, preparing the BAS should be relatively straight forward.

Goods and Services Tax (GST)

The GST your business owes the ATO equals 1/11th of gross sales of all products and services, including the sale of any business equipment, which are not GST-free. From this amount you deduct GST paid on business expenses (with a few exceptions) and send the balance to the ATO.

You must recalculate your prices under the GST – all reductions in operating costs (eg. from removal of sales tax) must be reflected in your prices.

For businesses, GST will not increase most costs because the GST paid on expenses reduces the GST you pay to the ATO, dollar for dollar, provided that:

- you have an ABN;
- you are registered for the GST; and
- your staff are trained and your accounting system records the information you need to prepare your BAS.

Businesses with an annual turnover (not just sales) of less than \$20 million can calculate their net GST every 3 months ending on 30th September, 31st December, 31st March and 30th June. All other businesses calculate their net GST every month.

If your annual turnover (not just normal sales) is less than \$1 million, you can use the cash basis of accounting to calculate your net GST ie. you account for GST only once customers have paid you and once you have actually paid your expenses.

For businesses with annual turnover in excess of \$1 million, GST on sales and purchases (including laybys), is accounted for in the first tax period (see next paragraph) when either of the following occur :-

1. the supplier gives a tax invoice to the customer, or
2. the customer pays some consideration, usually money.

GST Returns must be lodged within 3 weeks of the end of each tax period as part of the business BAS (Business Activity Statement).

GST tips

Special industry issues are detailed at the end of this booklet. Read the section for your industry and keep in touch with your industry associations. Details are being set all the time.

- ✓ Determine whether your business can use the cash basis of accounting to prepare the GST return.
- ✓ Decide if your business must lodge GST returns quarterly or monthly.
- ✓ If you want to claim input tax credits for GST you pay on your business expenses, you will need to apply for an ABN and register for GST. (Refer to back page for places that can assist you).
- ✓ Always get a proper tax invoice when you buy anything, otherwise you cannot claim the GST back – this includes getting a tax invoice from your landlord every time you pay rent, even if you have a lease agreement.
- ✓ Design a tax invoice that satisfies the new law. You must supply a tax invoice to your customer if the sale, including GST, exceeds \$55. For convenience, you may decide to use the tax invoice format for all sales.
- ✓ When setting your post GST prices, make sure you comply with the Australian Competition and Consumer Commission's (ACCC) rules – pass on all cost savings and leave the GST out of your costs – you get it back as a reduction of the GST you must pay the ATO on your sales.
- ✓ Remember not to claim a full credit of the GST paid on expenses which are part business, part private use eg. expenses on a car used for both business and private purposes.

GST traps

- ✗ The business must pay 1/11th of the sale price or trade in price of business equipment and vehicles as GST. Factor this into your negotiations about price.
- ✗ Do not claim a credit for GST paid on compulsory third party vehicle insurance before 1st July 2003.
- ✗ Do not pay GST on any interest income received.

Pay As You Go (PAYG)

This is a new way of paying your business income tax on a self-assessment basis – that is, you must do your own tax calculations.

It replaces personal provisional tax, company quarterly installments, the prescribed payments system ("PPS") and the reportable payments system ("RPS").

The most important aspect of the new PAYG system is that the timing of payment of your business income tax will change. This will affect your cash flow, so start planning now.

Apart from their own PAYG tax, businesses also withhold tax from other payments eg. employee group tax, No ABN withholding tax, tax withheld under a Voluntary Agreement. business must report and remit this withholding tax to the ATO as follows :-

- annual withholdings up to \$25,000 - Quarterly
- annual withholdings of between \$25,001 to \$1,000,000 - Monthly.

PAYG tips

- ✓ Check your accounting system regularly to know how much money you owe the ATO for GST, group tax and PAYG tax on your next BAS – you don't want any surprises at the last moment.
- ✓ For further advice speak to your accountant or business adviser.

Where To Get Help

- ❑ your accountant

- ❑ your industry associations

- ❑ GST Start-Up Assistance Office
www.gststartup.gov.au

- ❑ The Australian Taxation Office (ATO)
www.taxreform.ato.gov.au
Tel: 13 24 78

- ❑ GST Assist
Tel: 13 30 88
6am to 12pm every day Australia
wide for the cost of a local call

- ❑ ACCC
www.accc.gov.au
Tel: 1300 302 502

This document is part of a broad educational initiative of the GST Start-Up Assistance Office. It was prepared by the GST Start-Up Assistance Office in conjunction with PKF Mount Barker to help small and medium sized businesses manage change, in particular the changes occurring under TNTS.

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Bakers

GST

1. Know what food is GST-free.
2. If your shop's cash flow is mainly from sales of bread you may be eligible to use the business norms percentages to estimate your GST-free sales and purchases.
3. GST must be paid on ALL food eaten on the business premises.
4. The ATO has released simplified accounting rules for "Hot Bread Shops" – discuss with your accountant.

Builders

GST

1. Understand the Margin scheme to work out how the GST will apply to partially completed jobs at 30th June 2000.
2. If you do the paperwork for your subcontractors, rather than them sending you invoices, learn the rules about Recipient Created Tax Invoices.
3. Collect your customers' ABN's as you need to put them, or their address, on your tax invoices.
4. You lose 1/11th of the contract price (GST) under TNTS.

PAYG

1. Make sure your subcontractors understand that from the 1st July you will not be deducting any PPS from their payments – they have to manage their own tax affairs, including lodging their own BAS.

Butchers

GST

1. Many of the goods sold by butchers will be GST-free but some are not. Ask your trade association to provide you with a list of classifications. Your cash register will need to be able to deal with both classes of sales.

Cafes & Restaurants

GST

1. The ATO has approved several simplified GST accounting methods for food retailers – discuss with your accountant.
2. While much food is GST-free, your business must pay GST to ATO on all food sold which is eaten in the café/restaurant (including outdoor eating areas).
3. Special rules apply to tips from customers – see your accountant.

Child Carers

GST

1. Most child care services are GST-free, but not all – check the special rules applying to providers of child care services.
2. Fund raising activities are not GST-free eg trading tables. The amount of GST payable is 1/11th of the total fund raising income.
3. 1/11th of the total sale price of any equipment must be paid as GST.
4. A child care business will pay GST on many of its expenses, but will get all of this back as a reduction in the GST it owes the ATO on non GST-free income.
5. Make sure you know the impact of the GST on different types of income eg sale of food and nappies to children.

Clubs & Associations

GST

1. If your club's income which is subject to GST exceeds \$100,000 the club must register for GST.
2. The GST your club owes the ATO equals 1/11th of gross sales of all products and services (except GST-free food, if any), including the sale of any business equipment, From this amount you deduct GST paid on club expenses (with a few exceptions) and send the balance to the ATO.

3. While much food is GST-free, your club must pay GST to the ATO on all food sold which is eaten in your club. Therefore, you must account for the GST in your prices.
4. If you are registered and you issue or renew an annual membership after 1 July 1999, you must remit GST for the part of the membership that falls after 1 July 2000. You will remit 1/11th of the price of that part of the membership to the ATO. You will need to factor this GST into arrangements you are currently making with clients or members.

Convenience Stores

GST

1. Get your prices right to cover all GST you owe the ATO.
2. If your store sells milk, bread, soft drinks, cigarettes, confectionery, ice cream or groceries and it does not sell fuel or alcoholic beverages, you may be eligible to use the business norms percentages to estimate your GST-free sales and purchases.
3. Packaging for GST-free food is also GST-free. However packaging that is more than is usual and necessary for the supply of the food will be taxable.
4. If you supply a free product as part of a promotion you do not need to account for GST.
5. If you give away a free product when another is purchased, for example, a free toothbrush when you buy a tube of toothpaste, GST is payable on the amount charged for the toothpaste and no GST is payable on the free toothbrush.
6. Other discounted promotions will be subject to GST on the discounted price charged.

Health Care Professionals

GST

1. Many medical services are GST-free – this means that the doctor does not have to pay GST on patient fees related to those services. However GST must be paid on a range of other medical services. The amount of GST which the practice must pay equals 1/11th of the total amount of non GST-free services charged to the patient.
2. A health care practice will be able to claim back the GST it pays on almost all of its expenses.
3. If the practice would normally get a GST refund because it provides mainly GST-free services, it may be worth opting to lodge the BAS monthly, rather than quarterly.

Hotels

GST

1. The GST your hotel owes the ATO equals 1/11th of gross sales of all products (except GST-free food, if any) and services, including the sale of any business equipment.
2. While much food is GST-free, your business must pay GST to the ATO on all food sold which is eaten in your hotel, therefore, you must add 10% to your prices to cover the GST you will have to pay.
3. Special rules apply to tips from customers – see your accountant.

Manufacturers

GST

1. The GST your business owes the ATO equals 1/11th of gross sales of all products and services, including the sale of any business equipment, which are not GST-free (exports are GST-free).
2. You must recalculate your prices under the GST – all reductions in operating costs (eg. from removal of sales tax) must be reflected in prices.
3. Check all your sales contracts to determine your position with regard to the GST – you lose 1/11th of the contract price (GST) under TNTS.
4. When setting your prices, make sure you comply with the ACCC's rules – pass on all cost savings.
5. The business must pay 1/11th of the sale or trade in price of business equipment and vehicles as GST. Factor this into your negotiations about price.
6. Manufacturers will also gain from the substantial reduction in petrol, diesel and other fuel costs from 1 July 2000.

Motor Vehicle Dealers

GST

1. You must recalculate your prices under the GST – all reductions in operating costs must be reflected in prices.
2. Having worked out new prices taking into account cost savings, you should then add 10% to cover the GST you will owe the ATO. In many cases your new prices will be lower than your pre GST prices.
3. Understand the phasing in rules for businesses claiming input tax credits on new vehicles.
4. Learn how the GST applies when you purchase a second hand vehicle from anyone who is not registered for the GST.
5. Know how the GST applies to hire purchase and lease financing.
6. Be aware that 1/11th of the sale price, including 1/11th of any trade-in price of equipment and vehicles, of a business asset must be remitted as GST. Factor this into your negotiations about price.

Nursing Homes

GST

1. Many aged care services are GST-free, but GST must be paid on a range of other medical services.
2. If the home would normally get a GST refund because it provides mainly GST-free services, it may be worth opting to lodge the BAS monthly, rather than quarterly.
3. The GST your Nursing Homes owes the ATO equals 1/11th of gross resident income which is not GST-free plus fundraising income plus the sale price of any business equipment (most genuine donations are GST-free).

Pharmacists

GST

1. Certain medical products are GST-free – this means that the pharmacy does not have to pay any GST on sales of those products.
2. The pharmacy will have to pay GST on many of its expenses – just because a product is GST-free when sold does not mean that expenses incurred in selling that product (eg telephone costs) are exempt from GST.
3. If the pharmacy would normally get a GST refund because it sells mainly GST-free products, it may be worth opting to lodge the BAS monthly, rather than quarterly. However, remember that any GST refund is first offset against any PAYG tax due which may mean that there is still money due to the ATO. Discuss this issue carefully with your accountant.
4. Gift vouchers – GST is payable when the voucher is redeemed, not when it is sold. If the goods chosen cost more than the voucher, additional GST is payable.
5. Layby sales – if accounting for the GST on a cash basis, 1/11th of each payment is payable as GST. If not using the cash basis, then the full GST is payable when the first payment is received, or a tax invoice issued, whichever occurs first. Special rules apply if a layby is cancelled – speak to your accountant.

Primary Producers

GST

1. The business must pay 1/11th of the sale or trade in price of business equipment and vehicles as GST.
2. The GST status is determined at the time of supply. The point at which transfer of ownership take place is relevant to determining the GST status of a particular transaction. Transfer of ownership is generally a contractual issue and you should check your contracts or arrangements to ensure that the transaction is on terms that are acceptable to you.
3. If the change of ownership takes place before the carcass has been dressed and becomes identifiable as food for human consumption, then this sale will be subject to GST. If the change of ownership takes place after the carcass has been dressed and becomes identifiable as food for human consumption, the sale of the carcass will be GST-free, while the sales of hides and non-edible by-products will be subject to GST.
4. At auctions, bids are generally made on a per head or cents per kilo live weight basis. GST is calculated on the final sale price and is not affected by the basis of the bids.
5. GST will always apply to the auctioneer's fee or commission.
6. Goods and services exported will be GST-free.
7. Exports will be GST-free if they are exported within 60 days of either receiving payment or issuing an invoice for the goods, whichever is the earlier.
8. If a marketing agent exports goods on your behalf, then it acts as your agent. Any transaction performed by your agent is considered to be performed by you, therefore your exports will be GST-free (if they meet export requirements).
9. Hobby farmers cannot register for GST as they are not carrying on an enterprise.
10. Supplies made from 1 July 2000 under contracts entered into on or after 8 July 1999 (when the GST became law) will be subject to GST.
11. Leases, rental and hire purchase arrangements are contractual arrangements. They are a taxable supply and therefore any payments are subject to GST.
12. Farmers should carefully choose what accounting basis they want to use as it can have a significant impact on the amount of GST payable on their prepayments and part-payments. If you operate on a cash basis then the amount of GST payable on a prepayment or part-payment will be 1/11th of

the payment received. However, if you operate on a non-cash basis then the amount of GST payable on a prepayment or part-payment will be 1/11th of the total invoice amount.

13. If involved in the production, preparation or supply of food for human consumption, you will need to understand what is defined as 'food', what food is GST-free and what food is not GST-free.

Retailers

GST

1. Simplified bookkeeping procedures have now been approved by the ATO – contact your accountant. Alternatively, a booklet explaining the new rules "Simplified GST Accounting Methods for Food Retailers" is available at www.taxreform.ato.gov.au
2. While much food is GST-free, your business must pay GST to the ATO on all food sold which is eaten in your shop. Therefore, you must add 10% to your prices to cover the GST you will have to pay.
3. Gift vouchers - GST is payable when the voucher is redeemed, not when it is sold. If the goods chosen cost more than the voucher, additional GST is payable.
4. Layby sales - if accounting for the GST on a cash basis, 1/11th of each payment is payable as GST. If not using the cash basis, then the full GST is payable when the first payment is received, or a tax invoice issued, whichever occurs first. Special rules apply if a layby is cancelled – speak to your accountant.
5. You will be able to claim the credit on any one Business Activity Statement you lodge for a tax period ended before 7 January 2001. If your retail business is not registered for GST you will not be able to claim the credit.
6. To reduce GST compliance costs, the Government has introduced legislation to allow the Commissioner of Taxation to determine simplified GST accounting methods for retailers that sell food and for charities that make GST-free supplies.
7. Many retailers have programs through which customers receive points for the purchases and then redeem the points to obtain goods at the store. No GST is payable when goods are obtained this way, as the goods are supplied for no consideration. Customers will sometimes purchase goods by redeeming points and paying an additional amount. The additional amount will attract GST.

8. Retailers sell some items (such as newspapers) on commission. A newsagent does not buy the papers, and returns any unsold papers to the publisher. A registered newsagent will include GST in the price of a newspaper. For example, if the paper is sold for \$1.10, the publisher will be liable to remit GST of 10 cents to the ATO (that is 1/11th of the price). If the newsagent is paid a commission of 11 cents per copy sold, the newsagent will be liable to remit GST of one cent per copy.

Service Stations

GST

1. While much food is GST-free, your business must pay GST to the ATO on all food sold which is eaten on your premises. Therefore, you must add 10% to your prices to cover the GST you will have to pay.
2. Be aware that 1/11th of the sale price, including 1/11th of any trade-in price of equipment and vehicles, of a business asset must be remitted as GST. Factor this into your negotiations about price.
3. Do not claim a credit for GST paid on compulsory third party vehicle insurance before 1st July 2003.

Subcontractors

ABN

1. Your business Tax Invoices must include its ABN.
2. You must deduct 48.5% of any payment to another business (including other subcontractors) if they do not have an ABN – you send this deduction to the ATO as part of your BAS.

BAS

1. Check your bookkeeping system regularly to know how much cash you need to pay the ATO on your next BAS so you can save enough money to make the payment.

GST

1. The GST your subcontracting business owes the ATO equals 1/11th of gross sales of all products and services, including the sale of any business equipment.
2. You must recalculate your prices under the GST – all reductions in operating costs (eg. from removal of sales tax) must be reflected in prices. Having worked out new prices taking into account cost savings, you should then add 10% to cover the GST you will owe the ATO. In many cases your new prices will be lower than your pre GST prices.

3. In some cases, your prime contractor may use Recipient created tax invoices instead of you having to send them an invoice – learn how to record the income and deductions on these documents.
4. Remember not to claim a full credit of the GST paid on expenses which are part business, part private use eg. expenses on a car used for both business and private purposes.
5. Be aware that 1/11th of the sale price, including 1/11th of any trade-in price of equipment and vehicles, of a business asset must be remitted as GST. Factor this into your negotiations about price.

PAYG

1. The most important aspect of the new PAYG system is that the timing of payment of your income tax will change. This will affect your cash flow, so start planning now.
2. PPS tax will not be deducted from your invoices. You will now have to pay PAYG to the ATO in its place.
3. You may need to send invoices to your customers or prime contractors – talk to them.

TAXI AND LIMOUSINE OPERATORS

ABN

1. The business must have an ABN to register for the GST and GST registration is compulsory for all taxi operators, including drivers.
2. Your taxi or limo Tax Invoices must include its ABN.

GST

1. All businesses providing a taxi or limousine service must register for the GST, regardless of their turnover (other businesses with a turnover of less than \$50,000 do not have to register for GST, but they still need an ABN). The reason for this is simple. Without this rule, taxi and limousine operators with turnover of less than \$50,000 would be able to charge lower prices because they would not have to pay GST on their sales. Where this has occurred overseas, people will walk from one end of taxi rank to the other asking cabs if they charge GST, creating congestion in streets.
2. Do not claim a credit for GST paid on compulsory third party vehicle insurance before 1st July 2003.

Tour Operators

GST

1. There are a number of GST issues to do with tour operators which the ATO is still discussing with tourism and travel industry associations. These include the details of GST-free international travel and when GST is payable where a traveller pays for their ticket in a number of payments. The best way for tour operators to stay up-to-date with these developments is to stay in close contact with the tourism and travel industry associations.

Trades Persons

ABN

1. Without an ABN, other business customers you sell to must deduct 48.5% **from any amount they pay you**. Your business gets this back in its next tax return (not GST return), but in the meantime your cash flows would be badly affected.
2. GST registration is compulsory if turnover exceeds \$50,000.
3. Your trades Tax Invoices must include its ABN.
4. Make sure you supply your ABN to all of your business customers.

GST

1. Check any sales contracts to determine your position with regard to the GST – you will lose 1/11th of the contract price (GST) under TENTS.

PAYG

1. PPS tax will not be deducted from your invoices. You will now have to pay PAYG to the ATO in its place.

Truck Operators

ABN

1. You must deduct 48.5% of any payment to another business if they do not have an ABN – you send this deduction to the ATO as part of your BAS.

GST

1. The GST your road transport business owes the ATO equals 1/11th of gross sales of all products and services, including the sale of any business equipment, which are not GST-free.
2. You must recalculate your prices under the GST – all reductions in operating costs (eg. from removal of sales tax) must be reflected in prices.
3. No refund of sales tax can be claimed consumables like spare tyres, spare parts and office stationery on hand at 30th June 2000 – the refund is only available on trading stock.
4. Be aware that 1/11th of the sale price, including 1/11th of any trade-in price of equipment and vehicles, of a business asset must be remitted as GST. Factor this into your negotiations about price.

Travel Agents

ABN

1. Your travel agency's Tax Invoices must include its ABN.

GST

1. If you are a travel agent registered for GST, acting as an agent for various airlines, GST will be payable on domestic tickets you sell on behalf of these airlines.
2. Commissions you receive for on-selling taxable services, such as domestic tours or accommodation, will be subject to GST.
3. Travel insurance for travel that is GST-free will also be GST-free, but travel insurance for travel that is taxable will also be taxable.
4. If you charge a commission or fee on the sale of traveller's cheques GST is payable on that commission or fee.
5. If your business provides free goods as part of a promotion, such as overnight travel bags for customers booking overseas travel, no GST is payable on the supply of the goods.
6. Travel to or from Australia, by air or sea is GST-free. Any travel undertaken wholly outside Australia is also GST-free. The domestic leg of an overseas trip taken by passengers is GST-free.
7. Road, bus or car transport within Australia is subject to GST for Australians and overseas tourists.

