

TAX TIME

It's that time of year again when everyone has to think about tax. **Heather Zubek** dusts off her calculator as she looks into the complex world of taxes.

Happy New Year! Before you light the sparklers and sing Auld Lang Syne, it's not the beginning of a new calendar year but a new financial one. This new year is not really a cause for celebration, although there are rumours that some accountants do a little dance every July 1.

So why is July 1-June 30 called a financial year?

The financial year, sometimes called the fiscal year, is the period used for accounting and budgeting purposes by the government. This period is also used for calculating your taxable income.

A Financial Year in the Life of Jason and his Family

Meet Jason. He is a teacher and is paid monthly. He earned \$72,000 for the year but will have to pay about \$15,000 of this as **income tax**. Jason will also pay about \$1440 Medicare levy calculated at 2 per cent of his taxable income.

What is GST? Goods and Services Tax is an amount added to most goods and services at the rate of 10 per cent. **Stamp duty** is a tax charged by the government on certain purchases such as cars and houses. It is a one-off tax paid when transferring ownership and the rate differs in each State and Territory.

Weird Taxes

- In 1705, the Russian Emperor Peter the Great placed a tax on beards. He wanted men to be clean-shaven.
- In 1696, England had a window tax, which taxed the owners on the number of windows they had. People started bricking up windows to avoid paying the tax.
- Britain still has a tax on televisions called a Television Licence Fee.
- In many European countries there is a cow tax in order to reduce the amount of greenhouse gas that each cow emits when they break wind!

A **tax return** is a form that a taxpayer must complete to show how much income they have earned and the amount of expenses that can be deducted from that income. A **Tax File Number** (TFN) is a number given to all taxpayers by the ATO for tax administration purposes. Taxpayers need to quote their TFN to their employer and bank. Jason has to work out whether he has paid too much or too little tax during the financial year. If he has paid too much, he will get a refund and if too little, he will have to pay extra. Because Jason works as a teacher, he has to buy some stationery and go to workshops. He can claim these costs as a work expense and have them taken from his income so he pays less tax. These are called "allowable deductions".

THE HISTORY OF TAX

In the beginning . . . As soon as people stopped wandering around as nomads and started to form communities, they became aware that they needed money as a whole to fund things such as roads and the supply of fresh water. That's when community leaders started collecting tax from people to pay for these services. The word tax first appeared in the English language during the 14th century. It was taken from the Latin word "taxare", meaning to assess. In Ancient Egypt there was a tax on cooking oil and the Bible tells of farmers giving one-fifth of all crops to the Pharaoh. The Ancient Greeks had to pay a tax to fund their wars. **The growth of tax in Australia** Before 1901, each colony had its own system of tax. The first taxes in early Australia were needed to pay for a jail and an orphanage in Sydney. When the gold rush began in 1851, the government needed to raise funds to build better roads and services for the number of people pouring into the country. The fact that many people were finding gold gave the government an opportunity to raise funds through miners' licences. This form of taxation led to the Eureka Stockade and significant changes in Australian history.

And now . . . The reason for paying tax has basically stayed the same since early times. Now there are three different levels of government collecting tax: local, State and Federal. Each level has a responsibility for different goods and services. As an example, the Federal government is responsible for defence and immigration, the States and Territories take care of water, electricity and the police, and local government mainly looks after waste management and community services.

What would happen if . . . everyone paid the same percentage of tax?

You pay a certain amount of tax depending on how much you earn. If everyone paid a flat rate of 10 per cent, that would mean high earners would pay less tax and low earners would need to pay more. Other taxes would need to be increased, as the flat rate system of tax would make less money for the government

. . . there was no GST?

Goods and services would be much cheaper but the government would have to increase other taxes to maintain spending on services.

TAX TIDBITS

- Legend says that Lady Godiva, an English noblewoman, rode a horse naked through the streets of Coventry to oppose the taxation her husband imposed on the villagers.
- In 1773 in America, people threw 342 tea chests filled with tea into the Boston Harbour in protest against taxation. This event is known as the Boston Tea Party.
- In 2009 the Philippines government wanted to place a tax on each text sent from a mobile phone. Luckily for the 70-million mobile phone users in the country, this tax was never implemented.

From each pay packet, the employer takes out **income tax** and pays it to the Australian Taxation Office. The more a taxpayer earns, the more income tax they pay. The tax collected by the Australian Taxation Office (ATO) is used to pay for government services including aged care, welfare benefits, healthcare and education. The Medicare levy that Jason pays helps to pay for healthcare services provided for the Australian people. Soon after the end of the financial year, Jason has to fill in a tax return to make sure he pays the right amount of tax. The form requires Jason to include his Tax File Number (TFN).

Julie owns a bookshop

Jason's wife Julie owns a business called Julie's Bookshop. The business has to pay 27.5 per cent company tax on any profit. One of Julie's friends works full time in the bookshop, so Julie not only pays him wages but also contributes to his superannuation fund. **Jason buys a car** Jason has decided to buy a new small car this year. As part of the overall cost he will pay 2.75 per cent Stamp Duty based on the value of the car.

Jason and Julie own a home

Because they own a home, Jason and Julie need to pay tax or rates to the local government. This money pays for rubbish collection, keeping the local park clean and tidy as well as providing footpaths. **Jason forgets to lodge his tax return** Because Jason forgot to lodge his tax return one year, the ATO issued him with a penalty (or fine). If Jason didn't file a tax return over several years, he could face a fine of hundreds of dollars. **Emily gets a casual job.** Jason's 16-year-old daughter Emily is working 10 hours a week at the local supermarket. At tax time she is not required to lodge a tax return as she earns less than \$18,200 during the year. **Jason's toilet overflows!** Jason came home with a bunch of flowers for his wife Julie's birthday only to find the toilet overflowing. After the plumber unblocked the drains, Jason received a bill for \$300 with a further \$30 GST added. The cost of the flowers was \$30 plus \$3 GST.

Did you know that you could deduct . . .

- The cost of a dog if you use it for your work.
- The cost of sunscreen and a hat if you work outside.
- The cost of Xboxes and dartboards if your business uses them for helping employees relax.

Company Tax is a tax on the profit of a business. Small businesses pay a rate of 27.5 per cent, bigger businesses pay 30 per cent. A **superannuation fund** is money that is put into a fund or special account, usually by an employer. This is to provide income for employees when they retire. Just as Jason has to file a tax return, Julie has to file one for her business. Julie's Bookshop has a TFN as well as an Australian Business Number (ABN). Julie must spend money on her business, which she can claim back as a tax deduction. These include the shop's rent, the cost of using the internet and electricity.