

NON-PROFIT

SEGMENT

NON-PROFIT
ORGANISATIONS
AUDIENCE

OVERVIEW

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TAX BASICS FOR NON-PROFIT ORGANISATIONS

An overview of tax issues relating to non-profit organisations including charities, clubs, societies and associations.



You should use this overview if you are involved in the financial aspects of a non-profit organisation.



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If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a professional adviser.

The information in this publication is current at May 2007.

We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for a more recent version on our website at www.ato.gov.au or contact us.

ABOUT TAX BASICS FOR NON-PROFIT ORGANISATIONS

Tax basics for non-profit organisations provides an overview of tax issues relating to non-profit organisations, such as charities, clubs, societies and associations.

You should use this publication if you are a treasurer, office bearer or employee involved in the administration of a non-profit organisation.

This publication:

- explains which taxes and concessions affect non-profit organisations, and
- directs you to where you can find more detailed information.

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A non-profit organisation is an organisation that is not operating for the profit or gain (either direct or indirect) of its individual members. This applies both while the organisation is operating and when it winds up.

Non-profit organisations may be entitled to access income tax, fringe benefits tax and goods and services tax concessions. Few tax concessions apply to all organisations in the non-profit sector – they generally apply to particular types of non-profit organisation.

In order to access various concessions and comply with your organisation's tax obligations, you may need to register for an Australian business number (ABN), goods and services tax, fringe benefits tax and pay as you go withholding.

Charities and income tax exempt funds require endorsement by the Tax Office to access most concessions.

IS YOUR ORGANISATION NON-PROFIT?

Non-profit organisations operate in many areas of society. They can include:

- church schools
- churches
- community child care centres
- cultural societies
- environmental protection societies
- neighbourhood associations
- public museums and libraries
- scholarship funds
- scientific societies
- scouts
- sports clubs
- surf lifesaving clubs, and
- traditional service clubs.

A non-profit organisation is one which is not operating for the profit or gain of its individual members, whether these gains would have been direct or indirect. This applies both while the organisation is operating and when it winds up.

Any profit made by the organisation goes back into the operation of the organisation to carry out its purposes and is not distributed to any of its members.

The Tax Office accepts an organisation as non-profit where its constituent or governing documents prevent it from distributing profits or assets for the benefit of particular people – both while it is operating and when it winds up. These documents should contain acceptable clauses showing the organisation's non-profit character. The organisation's actions must be consistent with this requirement.

Acceptable clauses to indicate non-profit character are:

Non-profit clause

'The assets and income of the organisation shall be applied solely in furtherance of its above-mentioned objects and no portion shall be distributed directly or indirectly to the members of the organisation except as bona fide compensation for services rendered or expenses incurred on behalf of the organisation.'

Dissolution clause

'In the event of the organisation being dissolved, the amount that remains after such dissolution and the satisfaction of all debts and liabilities shall be transferred to another organisation with similar purposes which is not carried on for the profit or gain of its individual members.'

A non-profit organisation can still make a profit, but this profit must be used to carry out its purposes and must not be distributed to owners, members or other private people.

EXAMPLE

A society makes a \$40,000 profit for the year. It uses the profit to reduce its debts and provide for its activities in the following year.

TAX CONCESSIONS – AN OVERVIEW

There are a range of concessions available to non-profit organisations. Few of the concessions apply to all organisations in the non-profit sector – they generally apply to particular types of non-profit organisations.

The table on page 3 provides a summary of tax concessions and the types of non-profit organisations that can access them.

The table groups non-profit organisations as follows:

- **charities** – public benevolent institutions, health promotion charities, charitable institutions and charitable funds
- **income tax exempt funds**, and
- **other non-profit organisations**.

The table refers you to more information about each concession. For an explanation of each type of non-profit organisation see 'Types of non-profit organisations' on page 4.

There are also concessions for:

- Public and non-profit hospitals and public ambulance services – see 'FBT exemption' on page 25
- Religious institutions – see 'Religious institutions' on page 27 and 'GST concessions for charities, gift deductible entities and government schools' on page 17
- Non-profit companies and live-in residential care workers – see 'Non-profit companies and live-in residential carers' on page 27

Summary of tax concessions and types of non-profit organisations

! It is important to check the notes to the table, as your organisation may need to meet certain requirements before it can access a concession.

Tax concessions	Types of non-profit organisations				
	Public benevolent institutions and Health promotion charities	Charities Charitable institutions	Charitable funds	Income tax exempt funds	Other non-profit organisations
Income tax exemption – see page 9	✓ ¹	✓ ¹	✓ ¹	✓ ¹	✓ Certain types only ²
FBT exemption (subject to capping threshold) – see page 25	✓ ¹				✓ Certain types only ³
FBT rebate – see page 26		✓ ¹			✓ Certain types only ⁴
GST concessions for charities and gift deductible entities – see page 17	✓ ¹	✓ ¹	✓ ¹	✓ ⁵	✓ Certain types only ⁵
GST concessions for non-profit organisations – see page 15	✓	✓	✓		✓
Deductible gift recipient – see page 32	✓ ⁶	✓ Certain types only ⁶	✓ Certain types only ⁶	✓ ⁶	✓ Certain types only ⁶
Refunds of franking credits – see page 12	✓ ⁷	✓ ⁷	✓ ⁷	✓ ⁷	✓ Certain types only ⁷

Notes to the table

- The entity must be endorsed by the Tax Office to access this concession – see 'Endorsement requirements for charities and income tax exempt funds' on page 7.
- Only certain types of non-profit organisations are exempt from income tax. Many non-profit organisations are taxable, but may be entitled to special rules for calculating taxable income, lodging income tax returns and special rates of tax – see 'Income tax exemption' on page 9.
- Public and non-profit hospitals and public ambulance services are eligible for this concession – see 'FBT exemption' on page 25.
- Certain non-government non-profit organisations are eligible for this concession – see 'FBT rebate' on page 26.
- The entity must be a deductible gift recipient to access this concession – see 'Deductible gift recipients' on page 32.
- The entity must be endorsed by the Tax Office as a deductible gift recipient to access this concession. The only organisations that do not need to be endorsed are those listed by name in the tax law, including prescribed private funds – see 'Deductible gift recipients' on page 32.
- The entity must be an income tax exempt charity, income tax exempt fund, or deductible gift recipient to access this concession – see 'Refunds of franking credits' on page 12.

TYPES OF NON-PROFIT ORGANISATIONS

Concessions are available depending on the type of non-profit organisation. The non-profit organisation types are outlined below.

Charity

The characteristics of a charity are:

- it is an entity that is also a trust fund or an institution
- it exists for the public benefit or the relief of poverty
- its purposes are charitable within the legal sense of that term
- it is non-profit, and
- its sole purpose is charitable.

Briefly, purposes will be charitable if they are to benefit the community, or a section of it, through the following activities.

The relief of poverty or sickness or the needs of the aged, including through public benevolent institutions, hospitals and nursing homes, relief agencies, youth and women's refuges, drug rehabilitation services, disability services, refugee welfare centres, soup kitchens, and organisations that support disadvantaged Indigenous people or supply furniture, clothing and low-cost housing to the poor.

The advancement of education, including through schools, colleges, universities, research and scientific institutes, scouts and similar organisations, scholarship trusts, school building funds and parents and citizens associations.

The advancement of religion, including religious congregations such as churches and synagogues, seminaries, religious orders, organisations for building or repairing religious buildings, and organisations for supporting clergy and for spreading religious doctrine and practice.

Other purposes beneficial to the community, including:

- promoting health – for example, through educating the public about a particular disease
- providing community facilities – for example, museums, libraries, halls, botanical gardens, migrant resource centres, neighbourhood centres and community radio stations
- promoting art and culture through means such as music and drama
- helping to maintain defence and public order and providing emergency services
- relieving distress due to natural disasters such as floods or bushfires
- providing social welfare through activities such as counselling, child care, and family or marriage support services
- helping people cope with the problems of unemployment
- promoting scientific research
- advancing commerce, agriculture and industry through activities such as research and resource development
- protecting animals, and
- preserving historic buildings.

This list is not exhaustive. Other purposes may be charitable where they are intended to provide benefits of social value to the community or a section of the community.

Institutions and funds whose purposes are **not** charitable include:

- sporting, recreational and social clubs
- organisations run for the profit of their members
- organisations run for their members' common interests (this includes professional or trade groups)
- community service organisations that have a significant membership purpose, such as traditional service clubs
- political parties and lobbying groups
- commercial or business enterprises operated for fundraising, and
- government departments and instrumentalities carrying out the ordinary functions of government.

➤ For more information refer to *Is your organisation a charity?*

To obtain this publication, see 'More information' on the inside back cover.

Public benevolent institution

A public benevolent institution (PBI) is a non-profit institution organised for the direct relief of poverty, sickness, suffering, distress, misfortune, disability or helplessness.

The characteristics of a PBI are:

- it is set up for needs that require benevolent relief
- it relieves those needs by directly providing services to people suffering them
- it is carried on for the public benefit
- it is non-profit
- it is an institution, and
- its dominant purpose is providing benevolent relief.

Examples of PBIs are non-profit organisations that:

- provide hostel accommodation for the homeless
- treat sufferers of disease
- provide home help for the aged and the infirm, or
- rescue people who are lost or stranded.

To be a PBI, your organisation must be a charity – see 'Charity' above.

➤ For more information refer to *Is your organisation a public benevolent institution?*

To obtain this publication, see 'More information' on the inside back cover.

Health promotion charity

A health promotion charity is a non-profit charitable institution whose principal activity is promoting the prevention or control of diseases in human beings.

Examples of activities that can promote the prevention or control of disease include:

- providing relevant information to sufferers of a disease, health professionals, carers and the public
- researching how to detect, prevent or treat diseases, and
- developing or providing relevant aids and equipment to sufferers of a disease.

To be a health promotion charity, your organisation must be a charity – see ‘Charity’ on page 4.

➤ For more information refer to *Is your organisation a health promotion charity?*

To obtain this publication, see ‘More information’ on the inside back cover.

Charitable institution

A charitable institution is an institution that is established and run solely to advance or promote a charitable purpose. An organisation’s purposes can be found from its governing document/s and from its activities, history and control.

A charitable institution may be an organisation established by will or instrument of trust. It may also have the legal structure of an unincorporated association or a corporation. However, incorporation is not enough on its own for an organisation to be a charitable institution – what the organisation does is also relevant. An organisation established, controlled and operated by family members and friends would not normally be a charitable institution.

To be a charitable institution, your organisation must be a charity – see ‘Charity’ on page 4.

Charitable fund

A charitable fund is a fund established under an instrument of trust or a will for a charitable purpose.

Charitable funds mainly:

- manage trust property, and/or
- hold trust property to make distributions to other entities or people.

To be a charitable fund, your organisation must be a charity – see ‘Charity’ on page 4.

Income tax exempt fund

An income tax exempt fund (ITEF) is a non-charitable fund that is endorsed by the Tax Office to access income tax exemption.

Endorsement as an ITEF is an approval process to access income tax exemption. It applies to non-charitable funds established under a will or instrument of trust solely for:

- the purpose of providing money, property or benefits to income tax exempt deductible gift recipients (DGRs), or
- the establishment of DGRs.

The beneficiaries of ITEFs can include DGRs that are charities and DGRs that are not charities.

If a fund can be applied for purposes that are not charitable, it is not a charitable fund.

➤ For more information refer to *The endorsement process for income tax exempt funds.*

To obtain this publication, see ‘More information’ on the inside back cover.

Other non-profit organisations

Other non-profit organisations are non-profit organisations that are not:

- charities, or
- income tax exempt funds.

Other non-profit organisations include sports clubs, community service groups and recreational clubs.

A non-profit organisation is one which is not operating for the profit or gain of its individual members, whether these gains would have been direct or indirect. This applies both while the organisation is operating and when it winds up.

Any profit made by the organisation goes back into the operation of the organisation to carry out its purposes and is not distributed to any of its members.

The Tax Office accepts an organisation as non-profit if its constitution or governing documents prevent it from distributing profits or assets for the benefit of particular people – both while it is operating and when it winds up.

➤ For more information refer to *Is your organisation non-profit?*

To obtain this publication, see ‘More information’ on the inside back cover.

REGISTERING YOUR ORGANISATION

To access various concessions and comply with your organisation's tax obligations, your organisation may need to register for an Australian business number (ABN), goods and services tax (GST), fringe benefits tax (FBT), pay as you go (PAYG) withholding or other taxes.

What is an ABN?

The ABN is a single identifier that non-profit organisations use to:

- register for GST and claim GST credits
- register for PAYG withholding
- deal with investment bodies
- apply to the Tax Office for endorsement as a deductible gift recipient, tax concession charity or income tax exempt fund
- interact with other government departments, agencies and authorities, and
- interact with the Tax Office on other taxes, such as FBT.

Your organisation's ABN registration details become part of the Australian Business Register (ABR). The publicly available information on this register allows people to find out whether the entities they are dealing with have an ABN, are registered for GST, are endorsed charities or income tax exempt funds and/or are endorsed as deductible gift recipients.

Who is entitled to an ABN?


To be entitled to an ABN, your organisation must be:

- a company registered under the *Corporations Act 2001*
- an entity carrying on an enterprise in Australia
- an entity that, in the course or furtherance of carrying on an enterprise, makes supplies that are connected with Australia
- a government entity
- a non-profit sub-entity (for GST purposes), or
- a superannuation fund.

Entities can include charities, non-profit clubs, societies and associations.

An enterprise includes an activity or series of activities performed by:

- a charitable institution
- a trustee of a charitable fund
- a religious institution
- a gift deductible entity, or
- an income tax exempt fund.

 Your organisation must have an ABN if it is seeking endorsement:

- as a tax concession charity or income tax exempt fund, and/or
- as a deductible gift recipient.

How does your organisation apply for an ABN?

Your organisation can apply for an ABN:

- electronically through
 - the Australian Business Register at www.abr.gov.au
 - the Australian Government business website www.business.gov.au where you can also attend to other government obligations
- on a paper form, by phoning the Tax Office on **13 28 66**, or
- through a tax agent, who will lodge an application using the electronic lodgment system.



For more information refer to

- *Australian business number (ABN) – an overview for non-profit organisations*
- *ABN registration*

To obtain these publications, see 'More information' on the inside back cover.

Registering for GST and other taxes

If your organisation needs to register for GST, FBT or PAYG withholding, it can do so by selecting these options on the ABN application form.

If your organisation already has an ABN and needs to register for GST or other taxes, you will need to complete the form *Add a new business account* (NAT 2954). You can obtain this form by:

- phoning **13 28 66**, or
- visiting our website at www.ato.gov.au

For information about what taxes your organisation should register for, see:

- 'Goods and services tax' on page 13
- 'Pay as you go withholding' on page 23 (for withholding from payments to employees) and page 37 (for withholding in business transactions).
- 'Fringe benefits tax' on page 24.

It is important to keep your organisation's registration details up-to-date.

Your organisation's ABN details are recorded on the Australian Business Register and we use them in dealings with your organisation. The register includes information such as your organisation's postal address, and it also helps us identify your authorised contact people. It is important that the information we hold is accurate and up-to-date.

As many non-profit organisations elect office bearers for an annual term, their authorised contact people often change from year to year. Please notify us of any changes to your organisation's registration details. This helps us to protect your organisation's privacy and provide office bearers with access to the information they need to perform their duties.

We suggest your organisation includes updating the register as an agenda item in its annual general meeting.

➤ For more information refer to *How do I ensure the Tax Office can speak to my organisation's representative?* (NAT 7605).

To obtain this publication, see 'More information' on the inside back cover.

⚠ PUBLIC OFFICER

If your organisation is a company or unincorporated association carrying on business in Australia, you need to appoint a public officer.

You also need a public officer if your organisation is deriving income in Australia from property (for example, interest, rent or dividends).

The position of public officer must always be filled. Under the law, a change in public officer must be notified within 28 days of your organisation becoming aware of the change.

Cancelling your organisation's registration

If your organisation's circumstances change, you may need to cancel its registration for one or more taxes.

In this case, you will need to complete the form *Application to cancel registration* (NAT 2955) to cancel your organisation's registration for:

- ABN
- goods and services tax
- luxury car tax
- wine equalisation tax
- pay as you go withholding, or
- fuel tax credit.

You can obtain the application form and more information about cancelling registration by:

- phoning **13 28 66**
- visiting our website at www.ato.gov.au, or
- obtaining a fax by phoning **13 28 60**.

ENDORSEMENT REQUIREMENTS FOR CHARITIES AND INCOME TAX EXEMPT FUNDS

Charities and income tax exempt funds must be endorsed by the Tax Office to be exempt from income tax.

Charities also need to be endorsed if they want to access charity concessions under the goods and services tax (GST) and fringe benefits tax (FBT) laws.

An organisation's endorsement details are recorded on the Australian Business Register at www.abr.business.gov.au

The following information is publicly available on the register:

- the organisation's entity type – charitable fund, charitable institution, public benevolent institution, health promotion charity or income tax exempt fund
- the tax concessions the organisation has been endorsed to access, and
- the date of effect for each endorsement.

Applying for endorsement

Before an organisation can apply for endorsement it must have an Australian Business Number (ABN).

If your organisation does not have an ABN see 'How does your organisation apply for an ABN?' on page 6. If you indicate on the ABN application that your organisation wants to be endorsed as a tax concession charity (TCC) or income tax exempt fund (ITEF), the Tax Office will post you a TCC/ITEF endorsement application pack.

If your organisation already has an ABN, you can obtain a TCC/ITEF endorsement application pack by:

- phoning the Tax Office on **1300 130 248**
- visiting the Tax Office website at www.ato.gov.au/nonprofit (under Getting started select Endorsement – Application packs)

Using the form in the application pack you can apply to the Tax Office to access one or more of the following tax concessions:

- income tax exemption
- GST charity concessions
- FBT rebate
- FBT exemption

➤ For more information refer to:

- *The endorsement process to access charity tax concessions* (NAT 3192)
- *The endorsement process for income tax exempt funds*

To obtain these publications, see 'More information' on the inside back cover.

Endorsement is different to registration

Endorsement provides an organisation with access to concessions. For example, an organisation that is endorsed to access income tax exemption is exempt from paying income tax, removing the need to lodge income tax returns.

If an organisation is registered for a tax, it is generally a payer of that tax. However, endorsement to access tax concessions can often reduce the amount payable. For example, a charity that is endorsed to access the FBT rebate is entitled to a 48% rebate equal to the gross FBT payable (subject to capping thresholds).

There will be situations where an organisation is both endorsed and registered for a tax. For example, a GST endorsed charity that exceeds the relevant registration turnover threshold must register for GST.

To receive the practical benefit of some charity concessions a charity must be endorsed and registered for a tax. For example, a charity that is endorsed to access GST charity concessions is entitled to GST credits when it reimburses a volunteer for expenses directly related to the volunteer's activities for the charity. The endorsed charity must also be registered for GST in order to claim these credits.

Tax deductible gifts

Being endorsed as a TCC or ITEF does not entitle an organisation to receive tax deductible gifts.

There is a separate endorsement process for organisations seeking deductible gift recipient status – see 'Fundraising' on page 32.

- Income tax exemption **page 9**
- Taxable organisations **page 10**
- Consolidation **page 11**
- Refunds of franking credits **page 12**

Only certain types of non-profit organisations are exempt from income tax. Charities and income tax exempt funds require endorsement from the Tax Office to be exempt from income tax. Other non-profit organisations can self assess their exemption.

Many non-profit organisations are taxable and may need to lodge an income tax return and pay income tax. They may have special rules and concessions applied in working out their income tax obligations. These organisations should be aware of capital gains tax issues which can apply to taxable non-profit organisations and the PAYG instalments system.

For the consolidation of corporate groups, there are special rules for non-profit organisations.

If your organisation receives franked dividends, it may be eligible for a refund of franking credits.

INCOME TAX EXEMPTION

Whether a non-profit organisation has to pay income tax will depend on whether or not the organisation is exempt from income tax.

Only certain categories of organisation are exempt from income tax. They come from these broad groups:

- charities
- community service organisations
- cultural organisations
- educational organisations
- employment organisations
- health organisations
- income tax exempt funds
- religious organisations
- resource development organisations
- scientific organisations, and
- sporting organisations.

How do you work out if your organisation is exempt?

The following organisations must be endorsed by the Tax Office to be exempt from income tax:

- charities, and
- income tax exempt funds.

Refer to 'Charity' on page 4 and 'Income tax exempt fund' on page 5.

For more information on endorsement requirements see 'Endorsement requirements for charities and income tax exempt funds' on page 7.

Other organisations can self-assess whether they are exempt from income tax. See 'Other non-profit organisations' on page 5.

Charities and income tax exempt funds

There is a system of endorsement under which the following organisations must apply to the Tax Office to be exempt from income tax:

- charities, and
- income tax exempt funds.

If the Tax Office notifies you that your organisation is endorsed as an income tax exempt charity or income tax exempt fund:

- it is exempt from income tax, and
- it does not need to lodge income tax returns, unless specifically asked to do so.

There are important obligations that your organisation has as an income tax exempt charity or income tax exempt fund. Your organisation will need to:

- regularly review whether it is entitled to endorsement, and
- tell the Tax Office if it ceases to be entitled.

Other non-profit organisations

Organisations that are not charities or ITEFs can self-assess their entitlement to income tax exemption. They do not need to be endorsed by the Tax Office to be exempt from income tax. Most have additional tests and rules that must be met before the organisation can be exempt.

If you work out that your organisation meets all the requirements for income tax exemption:

- your organisation will not need to pay income tax, capital gains tax or lodge income tax returns (unless specifically requested to do so)
- you do not need to get confirmation of this exemption from the Tax Office, and
- you should carry out a yearly review to check whether your organisation is still exempt. You should also do this when there are major changes to your organisation's structure or activities.

➤ For more information about the requirements for the exempt categories (including the tests that have to be passed), refer to *Income tax guide for non-profit organisations* (NAT 7967).

To obtain this publication, see 'More information' on the inside back cover.

If your non-profit organisation is not exempt from income tax, it is taxable. See the following section, 'Taxable organisations' for more information.

TAXABLE ORGANISATIONS

Taxable non-profit organisations are generally treated as companies for income tax purposes, whether or not they are incorporated.

If your organisation is prohibited by the terms of its constituent documents from making any distributions – whether in money, property or otherwise – to its members, it is treated as a non-profit company. It will have the benefit of special rules for calculating taxable income, lodging income tax returns and special rates of income tax.

If you are not sure whether your organisation is non-profit, see 'Is your organisation non-profit?' on page 1.

If your organisation does not meet the non-profit requirement, it must lodge an income tax return each year, regardless of its taxable income. It will have the same rates of tax applied as other taxable companies.

➤ Refer to the *Income tax guide for non-profit organisations* (NAT 7967) for detailed information about concessions that may apply to taxable non-profit organisations, including:

- rules for calculating taxable income
- lodging income tax returns, and
- special rates of income tax.

To obtain this publication, see 'More information' on the inside back cover.

Capital gains tax

Capital gains tax applies to non-profit clubs, societies and associations that are treated as companies for income tax purposes in the same way as it does for other companies that pay income tax.

Capital gains tax is the tax a person or organisation pays on any capital gain it makes and includes in its annual income tax return. There is no separate tax on capital gains – it is just a component of income tax. An organisation is taxed on its net capital gain at the company tax rate.

➤ For more information about how to work out your taxable organisation's net capital gain or net capital loss, refer to *Guide to capital gains tax* (NAT 4151).

To obtain this publication, see 'More information' on the inside back cover.

Some of the particular capital gains tax issues that can affect non-profit organisations include:

- the sale of assets used in carrying on its activities
- changes to the form of an organisation's incorporation
- amalgamation of organisations, and
- availability of CGT concessions such as the small business concessions.

➤ For more information refer to *Is your non-profit organisation subject to capital gains tax?* (NAT 8281).

To obtain this publication, see 'More Information' on the inside back cover.

Pay as you go instalments

Pay as you go (PAYG) instalments is a system for paying amounts towards the *expected* tax liability on your business and investment income for the financial year.

Each year, after your organisation has lodged its annual tax return, the Tax Office works out what the total tax liability is and credits your PAYG instalments against this amount. We work out the *actual* tax liability when we assess your organisation's annual income tax return. Then we credit the PAYG instalments for the year against your organisation's assessment to determine whether it owes more tax or whether it is owed a refund.

If your organisation is required to pay PAYG instalments, we will write to you and notify you of an instalment rate. We calculate the instalment rate from information in your organisation's latest income tax return.

PAYG instalments are generally paid quarterly, but some taxpayers can choose to pay an annual instalment.

Quarterly PAYG instalments are reported and paid on an activity statement or instalment notice. Annual instalments are reported and paid on an annual instalment notice.

Most taxpayers also have a choice of using either the instalment amount we have worked out for them or an amount based on their instalment rate multiplied by their current business and investment income.

If your organisation has to pay PAYG instalments, we will tell you which options are available to you and ask you to choose the option you want to use.

➤ For more information about PAYG instalments, refer to *Companies – questions and answers* (NAT 7331).

To obtain this publication, see 'More information' on the inside back cover.

CONSOLIDATION

Wholly-owned corporate groups may have the option of consolidating for income tax. Consolidation is optional but irrevocable. The consolidated group operates as a single entity for income tax purposes, lodging a single income tax return and then paying a single set of PAYG instalments.

When a group consolidates, it is a 'one in, all in' situation, in which all of the head company's eligible wholly-owned subsidiary members become part of the group.

The following entities (which receive special tax treatment compared with ordinary Australian-resident companies) cannot be a head company or subsidiary member of a consolidated group:

- exempt entities (that is, total ordinary and statutory income is exempt)
- pooled development funds
- film licensed investment companies, or
- certain credit unions.

Other entities specifically excluded from being a subsidiary member of a consolidated group:

- non-profit companies
- trusts that are complying and non-complying superannuation entities, and
- trusts that are non-complying approved deposit funds.

While a non-profit company can be the head company of a consolidated group, it cannot be a subsidiary member.

➤ For more information on consolidation, refer to the *Consolidation Reference Manual*. To access this document visit www.ato.gov.au (search on 'consolidation reference').

REFUNDS OF FRANKING CREDITS

Franking credits attached to franked dividends received by endorsed income tax exempt entities, deductible gift recipients and developing country relief funds may be refundable, provided the eligibility criteria are met.

Franking credits arise for shareholders when certain resident Australian companies pay income tax on their taxable income and distribute their after-tax profits by way of franked dividends. These franked dividends have franking credits attached. Franked dividends are received either directly as a shareholder or indirectly as a beneficiary of a trust.

Organisations that receive a dividend from a New Zealand company with Australian franking credits attached to it may also be able to obtain a refund of those credits.

To be eligible for a refund of franking credits, an entity must have an ABN, be a resident and satisfy at least one of the following:

- be endorsed by the Tax Office as an income tax exempt charity
- be endorsed by the Tax Office as an income tax exempt fund
- be endorsed by the Tax Office as a DGR in its own right, or
- be specifically named as a DGR in the *Income Tax Assessment Act 1997*

Public funds declared by the Treasurer to be a developing country relief fund are also eligible for a refund of franking credits.

➤ For more information refer to *Refunding franking credits: endorsed income tax exempt entities and deductible gift recipients* (NAT 6716).

To obtain this publication, see 'More information' on the inside back cover.

- What is GST? **page 13**
- Registering for GST **page 13**
- What does being registered for GST mean? **page 14**
- What if your organisation is not registered for GST? **page 14**
- How to cancel GST registration **page 15**
- GST concessions for non-profit organisations **page 15**
- GST concessions for charities, gift deductible entities and government schools **page 17**
- GST branches, groups and non-profit sub-entities **page 19**
- Grants and sponsorship **page 21**

Goods and services tax (GST) is a broad based tax of 10% on the sale of most goods and services consumed in Australia.

Non-profit organisations must register for GST if their annual turnover is \$100,000 or more and they may choose to register if their annual turnover is lower.

If your organisation is registered for GST, your organisation must include 10% GST on most, or all, of its sales. In most circumstances, your organisation can also claim a credit for the GST included in the price of goods and services it buys in carrying on its activities.

Non-profit organisations have access to a range of GST concessions. Charities must be endorsed by the Tax Office in order to access GST charity concessions.

There are a number of different ways you can structure your organisation for GST purposes.

If your organisation receives grants or sponsorships, it may need to pay GST on the amount received.

WHAT IS GST?

Goods and services tax (GST) is a broad based tax of 10% on the sale of most goods, services and anything else consumed in Australia.

GST is a tax on transactions. Where a non-profit organisation is registered or required to be registered for GST, the price of most sales of goods and services and anything else will be inclusive of GST. Similarly, the organisation may be entitled to claim GST credits on the purchases it makes in carrying out its activities.

! IN THIS CHAPTER WHEN WE SAY:

- **sales** we are referring to the GST term *supplies*
- **purchases** we are referring to the GST term *acquisitions*, and
- **GST credit** we are referring to the GST term *input tax credit*.

REGISTERING FOR GST

If your non-profit organisation has an annual turnover of \$100,000 or more (\$50,000 for organisations that are not non-profit), it must register for GST.

If your organisation has an annual turnover of less than \$100,000, it can choose to register for GST. The decision to voluntarily register for GST should be made based on the administrative needs of your organisation.

Generally, an organisation must then stay registered for at least 12 months, even if its annual turnover is less than \$100,000.

Calculating your organisation's annual turnover

An organisation's annual turnover is its gross income, excluding:

- GST included in sales
- input taxed sales, and
- sales not connected with Australia.

If your organisation is not registered for GST, it will need to look at its annual turnover each month to make sure its turnover is not \$100,000 or more. Your organisation's annual turnover is \$100,000 or more if its:

- turnover for the current month and the previous 11 months is \$100,000 or more, or
- turnover for the current month and the next 11 months is likely to be \$100,000 or more.

Generally, if your organisation's turnover is \$100,000 or more, it must register for GST within 21 days of the annual turnover meeting the \$100,000 GST registration threshold.

How to register

To register for GST your organisation needs to complete an application form.

Before your organisation can register for GST it must have an ABN.

If your organisation does not have an ABN you can apply for an ABN and register for GST by completing the *Application to register for companies and other organisations* (NAT 2939).

If your organisation already has an ABN, it can register for GST by completing the *Add a new business account* (NAT 2954).

➤ For more information see 'Registering your organisation' on page 6.

WHAT DOES BEING REGISTERED FOR GST MEAN?

If your organisation is registered or required to be registered for GST, it generally includes GST in the price of most goods and services and anything else it sells. These sales are called taxable sales. See 'Taxable sales' below.

There are other types of sales where your organisation does not include GST in the price. These are called GST-free sales and input taxed sales. See 'GST-free sales' and 'Input taxed sales' below.

Being registered for GST means that your organisation:

- must pay the GST it has collected from its sales to the Tax Office
- can claim GST credits for any GST included in the price of its business purchases, and
- must complete an activity statement to report the taxable sales and claim GST credits.

➤ For more information about accounting for GST, see 'Record keeping, administration and payment' on page 36.

For more information about meeting your GST reporting obligations, refer to *GST for small business* (NAT 3014).

To obtain this publication, see 'More information' on the inside back cover.

Taxable sales

If your organisation makes a taxable sale, the price includes GST. Your organisation makes a taxable sale if it is registered or required to be registered for GST and the sale is:

- for consideration
- a part of the organisation's activities
- connected with Australia, and
- not GST-free or input taxed.

The GST included in the price of a taxable sale is equal to 1/11th of the sale price.

Your organisation can claim a GST credit for the GST in the price of things it buys to make a taxable sale.

GST-free sales

If your organisation makes a GST-free sale, it does not include GST in the price. GST-free sales include:

- basic food items (such as fruit and vegetables, meat, bread and plain milk)
- most education, child care and health services, and
- some exports.

Your organisation can claim a GST credit for the GST in the price of things it buys to make a GST-free sale.

Input taxed sales

If your organisation makes an input taxed sale, it does not include GST in the price. Input taxed sales include:

- the sale of residential property (unless it is new)
- leasing of residential property, and
- financial transactions, such as providing a loan.

Your organisation cannot claim a GST credit for the GST in the price of things it buys to make an input taxed sale.

WHAT IF YOUR ORGANISATION IS NOT REGISTERED FOR GST?

If your organisation is not registered and is not required to be registered for GST, it does not include GST in the price of its sales, and is not able to claim GST credits for the GST in the price of things it buys in carrying on its activities.

HOW TO CANCEL GST REGISTRATION

You may cancel your organisation's GST registration if your organisation:

- has been registered for at least 12 months
- has an annual turnover of below \$100,000, and
- has applied for cancellation of the registration.

Under certain circumstances, your organisation's GST registration may be cancelled if the registration has been in effect for less than 12 months.

Where your organisation has acquired a business asset on which you have claimed a GST credit, you may need to re-pay some or all the credit on cancellation of your GST registration.

➤ For more information refer to *Cancelling your GST registration* (NAT 3844).

To cancel your GST registration, complete the *Application to cancel registration* (NAT 2955).

To obtain these publications, see 'More information' on the inside back cover.

GST CONCESSIONS FOR NON-PROFIT ORGANISATIONS

There are a range of GST concessions that are available to non-profit organisations.

GST concession	Explanation of concession
Gifts – a gift to a non-profit organisation is not consideration for a supply.	See 'Gifts' on this page.
School tuck shops – a non-profit organisation may sell food through a tuck shop or canteen at a primary or secondary school and treat the sales as input taxed.	See 'School tuck shops' on this page.
GST registration threshold – the registration turnover threshold is higher for non-profit organisations than for other organisations.	See 'GST registration threshold' on page 16.
GST groups – the requirement to satisfy the 90% ownership test is waived where the entity is a non-profit organisation and all the other members of the GST group or proposed GST group are non-profit organisations and members of the same non-profit association.	See 'GST groups' on page 19.

⚠ There are additional GST concessions for charities, gift deductible entities and government schools.

See the table on page 17.

Gifts

A gift made to a non-profit organisation is not consideration for a sale and is not subject to GST. The value of a gift is also excluded when calculating the non-profit organisation's annual turnover.

For a payment to be considered a gift it must be made voluntarily and the payer cannot receive a material benefit in return:

- A payment is not voluntary when there is an obligation to make the payment or the non-profit organisation is contractually obliged to use the payment in a specific way.
- A benefit is not a material benefit if it is an item of insubstantial value that cannot be put to a use or is not marketable, such as a pin or a ribbon. An item of greater value, such as a ticket to a dinner, or an item that has a use or function, such as a pen or a book, is a material benefit.

➤ For more information refer to *Non-profit organisations and fundraising* (NAT 13095).

To obtain this publication, see 'More information' on the inside back cover.

School tuck shops

If a non-profit organisation (for example, a Parents and Citizens Association) operates a school tuck shop on the grounds of a primary or secondary school, it can choose to treat all sales of food through the tuck shop as input taxed.

This means that the organisation does not charge GST on its sales, and does not claim GST credits for its purchases.

As input taxed sales are not included when calculating the annual turnover for GST registration purposes, choosing to treat all sales of food as input taxed may mean that the organisation does not have to register for GST.

➤ There are certain conditions that must be met in order to apply this concession. For more information refer to *Non-profit organisations and fundraising* (NAT 13095).


To obtain this publication, see 'More information' on the inside back cover.

GST registration threshold

The GST registration threshold for a non-profit organisation is \$100,000. This means your non-profit organisation is not required to be registered for GST unless the annual turnover of your organisation is \$100,000 or more.

You may still choose to register your organisation for GST if its annual turnover is less than \$100,000. The decision to voluntarily register for GST is one that ought to be based on the administrative needs of your organisation. Some organisations may choose not to register for GST because they consider the GST reporting requirements to be a greater burden than the benefit they would receive, for example, access to GST credits.

NOTES TO TABLE OPPOSITE

-  It is important to check the notes to the table, as your organisation may need to meet certain requirements before it can access a concession.

Endorsement requirements for charities

- 1 If a charity wants to access this concession, it must be endorsed by the Tax Office to access GST charity concessions.

Where an organisation qualifies for a GST concession as both a charity and another type of entity, for example a gift deductible entity, it may access the concession only if the organisation is endorsed to access the GST charity concessions.

For more information, see 'Endorsement requirements for charities and income tax exempt funds' on page 7.

Gift deductible entities

- 2 A gift deductible entity that operates a fund, authority or institution which can receive tax deductible gifts or contributions can only apply this concession to the activities of the endorsed fund, authority or institution, and not to any other activities of the gift deductible entity.
- 3 A gift deductible entity that operates a fund, authority or institution which can receive tax deductible gifts or contributions is only entitled to account for GST on a cash basis if it meets one of the general eligibility criteria. Those criteria are:
- The entity's annual turnover does not exceed the cash accounting turnover threshold, or
 - For income tax purposes the entity correctly accounts for income using the receipts method.
- 4 If a donor makes a gift to a gift deductible entity that operates a fund, authority or institution which can receive tax deductible gifts or contributions, the donor will not have to make an adjustment to their GST credit if the gift is made for the principal purpose of the endorsed fund, authority or institution.
- 5 Only a gift deductible entity that is a non-profit body is able to choose to treat separately identifiable branches as non-profit sub-entity.

GST CONCESSIONS FOR CHARITIES, GIFT DEDUCTIBLE ENTITIES AND GOVERNMENT SCHOOLS

In addition to the GST concessions that are available to non-profit organisations (see ‘GST concessions for non-profit organisations’ on page 15), there are other GST concessions that are available to:

- charitable institutions and charitable funds that are endorsed to access GST charity concessions
- gift deductible entities, and
- government schools.

GST concession	Eligible entity	Explanation of concession
Raffles and bingo – tickets to raffles and bingo sold by an eligible entity are GST-free provided the holding of the raffle or bingo event does not contravene a state or territory law.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity² ■ Government school 	See ‘Raffles and bingo’ on page 18.
Fundraising events – an eligible entity may choose to treat all sales it makes in connection with certain fundraising events as input taxed.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity² ■ Government school 	See ‘Fundraising events’ on page 18.
Non-commercial activities – where an eligible entity makes sales and the payment it receives in return for the things it sold is less than a certain amount, the sales are GST-free.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity² ■ Government school 	See ‘Non-commercial activities’ on page 18.
Accounting on a cash basis – an eligible entity may choose to account on a cash basis regardless of its annual turnover.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity³ ■ Government school 	See ‘Accounting on a cash basis’ on page 18.
Reimbursement of volunteer expenses – an eligible entity can claim GST credits for reimbursements made to volunteers for expenses the volunteer incurs that are directly related to their activities as a volunteer of the entity.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity² ■ Government school 	See ‘Reimbursement of volunteer expenses’ on page 18.
Gifts and GST credit adjustments – adjustments of GST credits are not required when an item acquired by a business is subsequently gifted to an eligible entity.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity⁴ 	See ‘Gifts and GST credit adjustments’ on page 19.
Donated second-hand goods – sales of donated second hand goods by an eligible entity are GST-free.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity² ■ Government school 	See ‘Donated second-hand goods’ on page 19.
Non-profit sub-entities – an eligible entity may conduct some of its activities through a non-profit sub-entity.	<ul style="list-style-type: none"> ■ Income tax exempt non-profit organisation ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity⁵ ■ Government school 	See ‘Non-profit sub-entities’ on page 20.
GST religious groups – some charities can be approved as a GST religious group. Transactions between members of the group are excluded from GST.	<ul style="list-style-type: none"> ■ Income tax exempt charity 	See ‘GST religious groups’ on page 20.
Charitable retirement villages – an eligible entity may provide GST-free accommodation, accommodation related services and meals to residents of such retirement villages.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ 	See ‘Charitable retirement villages’ on page 19.

Raffles and bingo

A raffle is a game of chance where the prizes are either goods or cash, or a combination of the two.

The sale of tickets in a raffle and the acceptance of a person's participation in a game of bingo by a charitable institution, charitable fund, gift deductible entity (see note 2 on page 16) or government school are GST-free provided they do not contravene state or territory law.

Fundraising events

A charitable institution, charitable fund, gift deductible entity (see note 2 on page 16) or government school may choose to treat certain fundraising events as input taxed.

If an organisation chooses to treat a fundraising event as an input taxed fundraising event, it will have to treat all sales it makes in connection with the event as input taxed. The choice must be made before any sales take place.

The organisation will not be entitled to claim GST credits for any acquisitions in relation to the event and it will not be required to charge GST on the sales it makes. The organisation will not be entitled to claim GST credits regardless of whether the supply would have been GST-free had it not made the election.

Proceeds from input taxed fundraising events do not form part of an organisation's annual turnover. Therefore, if an organisation chooses to treat all sales in connection with certain fundraising events as input taxed, it does not need to register for GST provided its annual turnover is less than \$100,000.

➤ There are certain conditions that must be met in order to apply this concession. For more information refer to *Non-profit organisations and fundraising* (NAT 13095).

To obtain this publication, see 'More information' on the inside back cover.

Non-commercial activities

The commercial activities of a charitable institution, charitable fund, gift deductible entity (see note 2 on page 16) or government school are taxable but the non-commercial activities of these organisations can be GST-free.

This means that, if it is registered for GST, the charitable institution, charitable fund, gift deductible entity or government school does not pay GST on the payment it receives for its non-commercial sales, and, it can claim GST credits for the GST included in the price of things acquired to make these sales.

The term 'non-commercial activities' refers to sales made when the payment received for the sale is less than a specified amount. The sale is GST-free if the amount charged is:

- less than 50% of the GST-inclusive market value, or
- less than 75% of the amount the charitable institution, charitable fund, gift deductible entity or government school paid to acquire the things that are subsequently sold.

When the sale is a supply of accommodation by a charitable institution, charitable fund, gift deductible entity or government school, the sale is GST-free if the amount charged is:

- less than 75% of the GST-inclusive market value of the accommodation, or
- less than 75% of the cost of providing the accommodation.

Accounting on a cash basis

Organisations that account for GST use either a cash or non-cash (accruals) method.

Organisations may choose to account for GST on a cash basis if their annual turnover does not exceed the cash accounting turnover threshold.

A charitable institution, charitable fund, gift deductible entity or government school is entitled to use the cash basis of accounting irrespective of turnover (except where the gift deductible entity operates a fund, authority or institution which can receive tax deductible gifts or contributions – see note 3 on page 16).

➤ For more information refer to our publication *Cash and non cash accounting* (NAT 3136).

To obtain this publication, see 'More information' on the inside back cover.

Reimbursement of volunteer expenses

Where a charitable institution, charitable fund, gift deductible entity (see note 2 on page 16) or government school reimburses an individual person for an expense they have incurred that is directly related to their activities as a volunteer of that charity, gift deductible entity or government school, the organisation can claim a GST credit for the GST included in the price of the thing purchased if the organisation is registered for GST.

A payment is a reimbursement where the recipient is compensated exactly (meaning precisely, as opposed to approximately), whether wholly or partly, for an expense already incurred although not necessarily disbursed.

To enable the charity, gift deductible entity or government school to claim the GST credit, the volunteer must provide the organisation with the tax invoice relating to the purchase they have made.

➤ For more information refer to *Volunteers and tax* (NAT 4612).

To obtain this publication, see 'More information' on the inside back cover.

Gifts and GST credit adjustments

Generally, an organisation can claim GST credits on its purchases made for its business activities. However, if the organisation has claimed a GST credit and does not use that purchase as part of its business activities, it must repay the GST credit previously claimed.

If an organisation donates to a charitable institution, charitable fund or gift deductible entity (see note 4 on page 16) a purchase for which it has previously claimed a GST credit, it is not required to repay to the Tax Office the GST credit previously claimed in respect of that purchase.

Donated second-hand goods

A sale of donated second-hand goods by a charitable institution, charitable fund, gift deductible entity (see note 2 on page 16) or government school is generally GST-free provided there is no change in the original character of the goods.

➤ There are certain conditions that must be met in order to apply this concession. For more information refer to our publication *Non-profit organisations and fundraising* (NAT 13095).

To obtain this publication, see 'More information' on the inside back cover.

Charitable retirement villages

Certain supplies made by a charitable institution or charitable fund that operates a retirement village may be GST-free. Those supplies must be made by the charity to a resident of the retirement village. Accordingly, supplies made by the charity to visitors or staff of the retirement village would not qualify for GST-free treatment unless they are non-commercial activities of the charity.

The range of supplies to a resident of a charitable retirement village, to which GST-free treatment applies, includes the supply of accommodation in the retirement village, services related to the supply of accommodation and meals. This would include, for example, the supply of accommodation in an independent living unit or serviced apartment, property maintenance fees and gardening services and meals and beverages.

GST BRANCHES, GROUPS AND NON-PROFIT SUB-ENTITIES

There are a number of options available to non-profit organisations in relation to how they structure their organisation for GST purposes.

GST branches

A GST-registered organisation that operates through a branch structure may choose to register a branch (or branches) separately for GST, provided the organisation meets certain requirements.

This means the branch will be liable for GST on its sales and will be entitled to a credit for the GST in the price of things it buys in carrying on the activities of the branch. Transactions between the branch and the parent entity, and between branches, will be subject to GST.

➤ To register a GST branch, complete the *Application to Register for The New Tax System GST Branch Registration* (NAT 3035).

To obtain this publication, see 'More information' on the inside back cover.

GST groups

Certain organisations can form a GST group if they satisfy the 90% ownership test. The ownership test requires that each group member share substantially the same (at least 90%) ownership.

The 90% ownership requirement for a GST group does not apply to non-profit organisations.

Non-profit organisations that are members of the same non-profit association may find it useful to form a GST group if they regularly make sales and purchases between each other.

A GST group is treated as a single entity for GST purposes. This means no GST is payable and no GST credits can be claimed on transactions between group members.

One of the group members manages the affairs of the group and is responsible for accounting for the GST transactions of the whole group. This group member is known as the representative member. However, each group member must be individually registered for GST to form part of a GST group.

When GST group members make sales outside the group, the representative member is responsible for accounting for GST on the sales.

Similarly when GST group members make purchases from outside the group, the representative member claims the GST credits on the purchases on behalf of the group.

➤ For more information refer to *GST groups* (NAT 3089).

To register a GST group complete the *Goods and services tax (GST) group – Application to register or change details* (NAT 2952).

To obtain these publications, see ‘More information’ on the inside back cover.

GST religious groups

Non-profit organisations that are income tax exempt charities and belong to the same religious organisation can form a GST religious group, provided they meet certain requirements.

This means no GST is payable and no credits can be claimed on transactions between group members. However, each member of the GST religious group is still required to be individually registered for GST and account for all its transactions with parties external to the GST group by lodging individual activity statements.

Non-profit sub-entities

Certain organisations may choose to have some (or all) of their separately identifiable branches or units treated as separate entities for GST purposes. The separate units are called non-profit sub-entities.

Organisations eligible for this concession are:

- charitable institutions
- charitable funds
- gift deductible entities (see note 5 on page 16)
- government schools, and
- other non-profit organisations.

To be able to use this option the main organisation must be registered for GST and continue to remain registered.

A non-profit sub-entity is a separate entity for GST purposes only. Other obligations like PAYG, FBT and income tax are not affected by this arrangement.

A unit will be considered to be independent if it:

- maintains an independent system of accounting, and
- can be separately identified from the main organisation by its location or by its activities.

For example, a unit could comprise of a separately located branch of an organisation or a fundraising activity such as a fete, lamington drive or fundraising dinner. If you choose to treat a unit of your organisation as a non-profit sub-entity, you must make a note in your records, such as your accounts or the minutes of a meeting, that the unit is to be treated as a separate entity for GST purposes.

A unit cannot be a non-profit sub-entity if its activities are related to the main purpose of the organisation. For example, an organisation cannot treat its membership activities as the activities of a non-profit sub-entity.

Where the unit's annual turnover is less than \$100,000, the unit can choose whether or not it registers for GST. Where the unit has a turnover of \$100,000 or more, it is required to register separately for GST and will have the same rights and obligations as other GST-registered entities. The GST obligations of the unit will be imposed on the people responsible for the management of the unit.

Once the organisation makes a choice to treat a unit as a non-profit sub-entity, it cannot revoke that choice for 12 months. The organisation cannot make a further choice to treat the unit as a non-profit sub-entity within 12 months after the previous choice was revoked.

⚠ Unless otherwise directed, for more information on a GST concession, refer to the *Charities Consultative Committee Resolved Issues Document*. You can access this document by visiting our website at www.ato.gov.au/nonprofit (search on resolved issues).

GRANTS AND SPONSORSHIP

Grant funding

Often organisations secure funding from government bodies, foundations and private purpose funds.

If your organisation is registered (or required to be registered) for GST, it may have to pay GST on the funding payment it receives if it makes a supply in return for that funding.

The organisation is not required to pay GST on a funding payment if it does not make a supply in return for the funding.

Sponsorship

Under a sponsorship arrangement, when an organisation undertakes a fundraising activity it often receives support in the form of money. In return, it may provide such things as advertising, signage or naming rights or some other type of benefit of value.

This means that the sponsor receives something of value in return for the sponsorship, so the sponsorship payment is not a gift. If the organisation is registered for GST, it has to pay GST on the sponsorship it receives.

➤ For more information on grants funding and sponsorship, refer to *Non-profit organisations and fundraising* (NAT 13095).

To obtain this publication, see 'More information' on the inside back cover.

- Employees, independent contractors and volunteers **page 22**
- Pay as you go withholding **page 23**
- Fringe benefits tax **page 24**
- Salary sacrifice arrangements **page 27**
- Superannuation guarantee **page 28**
- Eligible termination payments **page 29**
- Higher education debts **page 29**
- Employees and child support **page 30**
- Independent contractors and tax **page 30**
- Volunteers and tax **page 31**

An organisation needs to determine whether its workers are employees, independent contractors or volunteers.

If your organisation has employees, it will need to:

- register for PAYG withholding, if it is not already registered
- withhold amounts from salary and wages and pay the withheld amounts to the Tax Office, and
- contribute to its employees' superannuation.

Organisations providing fringe benefits to their employees are subject to FBT. Some fringe benefits are exempt from FBT and most non-government income tax exempt organisations will qualify for a rebate (subject to capping) if they have to pay FBT.

If your organisation provides workers to its clients under a labour hire arrangement, it must withhold from payments to these workers.

EMPLOYEES, INDEPENDENT CONTRACTORS AND VOLUNTEERS

It is important to determine whether an individual is an employee, independent contractor or volunteer of an organisation, as this status may affect the tax treatment of transactions between the individual and the organisation.

Meaning of employee

Generally, an individual is considered to be an employee if they:

- are paid for time worked
- receive paid leave (for example, sick, annual or recreation, or long service leave)
- are not responsible for providing the materials or equipment required to do their job
- must perform the duties of their position
- agree to provide their personal services
- work hours set by an agreement or award
- are recognised as part and parcel of the payer's business, and
- do not take commercial risks and cannot make a profit or loss from the work performed.

Meaning of independent contractor

An independent contractor is an entity (such as an individual, partnership, trust or company) that agrees to produce a designated result for an agreed price. In most cases an independent contractor:

- is paid for results achieved
- provides all or most of the necessary materials and equipment to complete the work
- is free to delegate work to other entities
- has freedom in the way the work is done
- provides services to the general public and other businesses
- is free to accept or refuse work, and
- is in a position to make a profit or loss.

➤ For more information refer to *PAYG withholding guide no 2 – How to determine if workers are employees or independent contractors* (NAT 2780).

To obtain this publication, see 'More information' on the inside back cover.

Meaning of volunteer

There is no legal definition of ‘volunteer’ for tax purposes. The dictionary explanation of a volunteer is someone who enters into any service of their own free will, or who offers to perform a service or undertaking.

For more information on the tax treatment of:

- independent contractors – see ‘Independent contractors and tax’ on page 30
- volunteers – see ‘Volunteers and tax’ on page 31.

PAY AS YOU GO WITHHOLDING

If your organisation has employees, you must withhold amounts from their pay and send the withheld amounts to the Tax Office. This process is called withholding and is done through the pay as you go (PAYG) withholding system.

You must register your organisation with the Tax Office when you are required to withhold from payments to your employees.

The amount to be withheld from an employee’s pay depends on the amount they are paid and the information an employee has provided in a *Tax file number declaration* (NAT 3092) and/or a *Withholding declaration* (NAT 3093).

The Tax Office publishes tax tables that list the amounts to withhold from weekly, fortnightly and monthly pays.

If your organisation is a small organisation, it reports and pays the withheld amounts to the Tax Office monthly or quarterly when you lodge your organisation’s activity statements.

You are also required to give each employee an annual payment summary of the amount withheld from them during the year. You also need to provide an annual report to the Tax Office about withheld amounts.

Directors are treated similarly to employees for PAYG withholding purposes.

What are your organisation’s obligations for other PAYG withholding payments?

The most common circumstances that could arise where an organisation may have PAYG withholding obligations other than for employees would be:

- payments under PAYG voluntary agreements, and
- payments where no ABN is quoted on an invoice.

The rates of withholding depend on the type of payment. For example, the ‘no ABN quoted’ withholding rate is 46.5%, while the rate to be used for a PAYG voluntary agreement is either a flat rate of 20% or the payee’s PAYG instalment rate.

You should check with the Tax Office on the rates that apply to other payments.

A payment summary is also issued to individuals and entities (who are not employees) showing amounts that have been withheld under other types of PAYG withholding.

➤ For more information about PAYG withholding for employees, refer to *What you need to know when making payments to workers*.

To obtain this publication, see ‘More information’ on the inside back cover.

The following are available from the Tax Office by phoning **13 28 66** and free from most newsagents:

- *Tax tables – weekly* (NAT 1005)
- *Tax tables – fortnightly* (NAT 1006)
- *Tax tables – monthly* (NAT 1007)
- *Withholding declaration* (NAT 3093)
- *Tax file number declaration* (NAT 3092)

There is also a *tax withheld calculator* available which can be used to calculate tax rates electronically. This calculator can be downloaded from our website at www.ato.gov.au

For information on ‘no ABN quoted’, see ‘Withholding in business transactions’ on page 37.

Are any organisations exempt from PAYG withholding?

No. Every payer has to withhold from payments subject to PAYG withholding. Organisations that are exempt from income tax are not exempt from PAYG withholding obligations.

Registering for PAYG withholding

If your organisation pays salaries or wages or makes any other payments that are subject to PAYG withholding, your organisation will need to register.

Your organisation can register for PAYG withholding by either completing a form (which you can send us in paper or electronic form) or by contacting us.

If you are applying for an ABN for your organisation, you can use the same form to register for PAYG withholding.

➤ To obtain a registration form for PAYG withholding:

- phone **13 28 66**, or
- visit www.ato.gov.au

If your organisation makes a payment that is subject to PAYG withholding, you must withhold the required amount from the payment and send this to us by the due date. The amount withheld will be reported on your organisation's activity statement along with any GST, PAYG instalments or FBT amounts. Any credits your organisation is entitled to (such as GST credits) will be offset against any amount of PAYG withholding and other tax liabilities it is required to report on its activity statement.

You send these amounts monthly or quarterly, depending on your organisation's withholding status (small or medium withholder). If your organisation is a large withholder, you have to send amounts more frequently.

At the end of the year you must submit an annual report to us that reconciles all withholding payments your organisation has made to us during the financial year.

FRINGE BENEFITS TAX

What is FBT?

Fringe benefits tax (FBT) is a tax payable by employers who provide fringe benefits to their employees or to associates of their employees. This is the case whether or not the employer is the actual supplier of the benefit (for example, where the benefit is provided by an associate or under an arrangement with a third party).

If your organisation provides a fringe benefit to its employees or to associates of its employees (typically family members), your organisation may have an FBT liability. This is separate from income tax and is calculated on the taxable value of the fringe benefits provided. Even if your organisation is exempt from income tax, it may still have to pay FBT. There are, however, certain FBT concessions that can reduce your organisation's liability.

What is a fringe benefit?

A fringe benefit is a 'payment' to an employee, but in a different form to salary and wages. Benefits include rights, privileges or services. For example, a fringe benefit may be provided when an employer:

- allows an employee to use a work car for private purposes
- gives an employee a cheap loan, or
- pays an employee's private health insurance costs.

Some employers, including charities, will need to distinguish between employees, volunteers and independent contractors. For the purposes of FBT, an employee is a person who receives (or is entitled to receive) salary or wages, or a benefit that has been provided in respect of their employment. A volunteer is not paid for work. Reimbursing a volunteer for out-of-pocket expenses does not cause them to become an employee. Generally benefits provided to volunteers do not attract FBT.

If an organisation provides non-cash benefits to workers in lieu of salary and wages, FBT can apply.

- For more information refer to
 - *Fringe benefits tax for non-profit organisations* (NAT 14947)
 - *Volunteers and tax* (NAT 4612).

To obtain these publications, see 'More information' on the inside back cover.

Common fringe benefits

One of the most common fringe benefits is a car, which generally becomes a fringe benefit when it is owned or leased by an employer and made available for the private use of an employee. If the employer's car is garaged at an employee's house, it is treated as having been made available for private use.

Other common fringe benefits include:

- expense payments
- loans
- meals/entertainment, and
- housing.

Common exempt benefits

A number of benefits are exempt from FBT. These include:

- a mobile phone or a car phone primarily used in employment
- a notebook computer, a laptop computer or a similar portable computer (limited to the purchase or reimbursement of one computer for each employee per FBT year)
- some taxi travel
- in-house health care facilities, and
- most minor benefits where the value of the benefit is less than \$300 and it would be unreasonable to treat it as a fringe benefit.

Registering for FBT

We recommend you register your organisation once you have established that it has to pay FBT.

- Your organisation can register for FBT using the *Application for registration – fringe benefits tax* (NAT 1055).

To obtain this publication, see 'More information' on the inside back cover.

Once you are registered, we will send you return form stationery and additional information to help you lodge your return. Your FBT number is the same as your tax file number.

FBT returns and payments

Employers must assess their own liability for FBT annually. A return covering the FBT year, from 1 April to 31 March, should be lodged by 21 May or first business day after this date.

If your organisation has not previously paid FBT, or if the amount of FBT it had to pay for the previous year was less than \$3,000 it is required to pay the tax once a year when it lodges its annual FBT return.

If your organisation had to pay FBT of \$3,000 or more for the previous year, it must pay the tax quarterly with its activity statement in the subsequent year. A balancing payment (if any) should be made when it lodges its FBT return by 21 May (or the first business day after), unless other arrangements have been made with the Tax Office.

To calculate a fringe benefits tax liability, the taxable value of fringe benefits provided must be grossed-up.

What is grossing up?

Grossing-up means increasing the taxable value of a benefit to reflect the gross salary an employee would have to earn at the highest marginal tax rate, including Medicare levy, to purchase the benefit from after-tax dollars.

There are two separate gross-up rates:

- **A higher (type 1) gross-up rate of 2.0647** – This rate is used where the benefit provider is entitled to a GST credit in respect of the provision of a benefit.
- **A lower (type 2) gross-up rate of 1.8692** – This rate is used if the benefit provider is not entitled to GST credits.

⚠ Always use the lower gross-up rate for reporting on employees' payment summaries.

Reportable fringe benefits

You must keep records that show the taxable value of certain fringe benefits provided to your organisation's employees, regardless of your organisation type.

If the total taxable value of reportable fringe benefits you provide to an employee in an FBT year (1 April to 31 March) is more than \$2,000, you must record the grossed-up taxable value of those benefits on your employee's payment summary for the corresponding income year (1 July to 30 June).

This requirement applies even if your organisation is not liable to pay FBT.

Benefits that are exempt from FBT may still need to be reported on payment summaries.

The notional taxable value of a benefit must be allocated to the relevant employee where a benefit is exempt from FBT due to:

- capping thresholds that apply to public benevolent institutions, health promotion charities, hospitals and public ambulance services, and/or
- concessions that apply to religious institutions and non-profit companies in relation to live-in residential care workers.

While the above employers are required to report these amounts on payment summaries where they exceed the reporting threshold, the benefits will continue to be exempt from FBT.

The reportable fringe benefits amount shown on the payment summary is not included in the employee's assessable income. It is, however, included in a number of income tests relating to certain government benefits and obligations.

➤ For more information on reportable fringe benefits, refer to *Reportable fringe benefits – facts for employees* (NAT 2836).

To obtain this publication, see 'More information' on the inside back cover.

FBT concessions

Few tax concessions apply to all organisations in the non-profit sector – they tend to apply to particular types of non-profit organisations.

The following sections discuss FBT concessions and the types of non-profit organisations that can access them.

The section covers:

- FBT exemption
- FBT rebate, and
- certain benefits provided by religious institutions and non-profit companies.


FBT exemption

FBT exemption is an exemption from paying FBT.

If your organisation is eligible for FBT exemption, benefits it provides to its employees are exempt from FBT where the total grossed-up value of certain benefits for each employee during the FBT year is equal to, or less than, the capping threshold. If the total grossed-up value of fringe benefits provided to an employee is more than the capping threshold, the organisation will be liable for FBT on the excess.

The table below outlines the types of organisations that are eligible for FBT exemption, the capping thresholds that apply and whether the organisation needs to be endorsed by the Tax Office to access FBT exemption.

What types of organisations are eligible for FBT exemption? (see note 1 below)	What capping threshold applies? (see note 2 below)	Does the organisation need to be endorsed by the Tax Office to access FBT exemption? (see note 3 below)
Public benevolent institutions (other than hospitals). 'Public benevolent institution' is explained on page 46	\$30,000 per employee	Yes
Health promotion charities 'Health promotion charity' is explained on page 45	\$30,000 per employee	Yes
Public and non-profit hospitals	\$17,000 per employee	No
Public ambulance services	\$17,000 per employee	No

 It is important to check the notes to the table, as your organisation may need to meet certain requirements before it can access a concession.

Notes to the table

- 1 A range of benefits are exempt from FBT. They include certain benefits provided by religious institutions and non-profit companies. For more information, see 'Religious institutions' and 'Non-profit companies and live-in residential carers' below.
- 2 If an organisation is a public benevolent institution (PBI) and a hospital, the \$17,000 capping threshold applies. The organisation **cannot** choose the PBI exemption cap.
- 3 For more information see 'Endorsement requirements for charities and income tax exempt funds' on page 7.

FBT rebate

FBT rebate is an entitlement to a rebate equal to 48% of the gross FBT payable, subject to a capping threshold.

Organisations that qualify for an FBT rebate are referred to as 'rebtable employers'.

Rebtable employers are entitled to have their liability reduced by a rebate equal to 48% of the gross FBT payable (subject to a \$30,000 capping threshold). If the total grossed-up taxable value of fringe benefits provided to an employee is more than \$30,000 a rebate cannot be claimed for the FBT liability on the excess amount.

Charities must be endorsed by the Tax Office in order to access the FBT rebate. For more information, see 'Endorsement requirements for charities and income tax exempt funds' on page 7. Other non-profit organisations can self-assess their entitlement.

Rebtable employers are certain non-government, non-profit organisations. Organisations that qualify for the FBT rebate include:

- certain religious, educational, charitable, scientific or public educational institutions
- trade unions and employer associations
- non-profit organisations established to encourage music, art, literature or science
- non-profit organisations established to encourage or promote a game, sport or animal races
- non-profit organisations established for community service purposes
- non-profit organisations established to promote the development of aviation or tourism
- non-profit organisations established to promote the development of Australian information and communications technology resources, and
- non-profit organisations established to promote the development of the agricultural, pastoral, horticultural, viticultural, aquacultural, fishing, manufacturing or industrial resources of Australia.

Religious institutions

Religious institutions are eligible for the FBT rebate (subject to a capping threshold of \$30,000). If a religious institution is a charity it must be endorsed by the Tax Office in order to access the FBT rebate. If a religious institution is not a charity it can self assess its entitlement. For more information see 'FBT rebate' above.

Religious institutions may also be eligible for FBT concessions in relation to benefits they provide to:

- religious practitioners
- live-in carers, and
- domestic employees.

Religious institutions and religious practitioners

Subject to certain requirements, benefits provided by religious institutions to religious practitioners are exempt if they relate principally to the practitioners' pastoral duties or other duties relating to the practice, study, teaching or propagation of religious beliefs.

Religious institutions and live-in residential carers

If a religious institution's activities include caring for elderly or disadvantaged people, certain benefits it provides to its employees are exempt.

The exemption relates to live-in carers where the carer resides with the elderly or disadvantaged person in residential accommodation you provide. The benefits that may be exempt include the employees' live-in accommodation, residential fuel, meals or other food and drink.

Religious institutions and domestic employees

Benefits religious institutions provide to live-in and non-live-in domestic workers are exempt in certain circumstances.

For a live-in employee, the employee's duties must principally involve domestic or personal services for religious practitioners and the practitioners' relatives residing with them. The benefits that may be exempt include the employees' live-in accommodation, residential fuel, meals or other food and drink.

For a non-live-in employee, the employee's duties must also principally involve domestic services for religious practitioners and the practitioners' relatives residing with them. The exempt benefits are limited to food and drink consumed by the employee while carrying out employment-related duties.

Non-profit companies and live-in residential carers

If a non-profit company's activities include caring for elderly or disadvantaged people, it can provide exempt benefits to live-in carers.

The condition for exemption is the same as for religious institutions. See 'religious institutions and live in residential carers' above.

For an organisation to be a non-profit company:

- it must be a company that is not carried on for the purposes of profit or gain to its individual members, and
- its constituent documents must prohibit it from making any distribution, whether in money, property or otherwise, to its members.

➤ For more information on FBT and how it applies to organisations in the non-profit sector, refer to *Fringe benefits tax for non-profit organisations* (NAT 14947).

To obtain this publication, see 'More information' on the inside back cover.

SALARY SACRIFICE ARRANGEMENTS

A salary sacrifice arrangement is also commonly referred to as salary packaging or total remuneration packaging. It is an arrangement between an employer and an employee, whereby the employee agrees to forego part of their future entitlement to salary or wages in return for the employer providing them with benefits of a similar cost (to the employer). The employee is likely to place greater value on the benefit than its cost to the employer.

An effective salary sacrifice arrangement will detail the amount of salary or wages income to be sacrificed, and it must be entered into before the employee becomes entitled to be paid and before any work is performed.

Under an effective arrangement:

- the employee pays income tax on the reduced salary or wages
- the employer may be liable to pay FBT on the fringe benefits provided
- salary-sacrificed superannuation contributions are classified as employer superannuation contributions (not employee contributions). This means they are taxed in the superannuation fund under tax laws dealing specifically with this subject, and
- the employer may be required to report certain benefits on the employees' payment summary.

➤ For more information refer to *Salary sacrifice arrangements for employees* (NAT 7424).

To obtain this publication, see 'More information' on the inside back cover.

SUPERANNUATION GUARANTEE

Superannuation guarantee

As an employer you must provide a minimum level of superannuation support for your eligible employees – currently 9% of an employee's earnings base – or lodge a *Superannuation guarantee statement* and pay the superannuation guarantee charge (SGC).

Who is covered by superannuation guarantee?

Most employees, whether full-time, part-time or casual, are covered by the superannuation guarantee legislation. The definition of employee is extended for superannuation purposes to cover some additional categories of workers, including company directors, some artists, sportspeople and certain independent contractors.

Exceptions include employees who are:

- paid less than \$450 (before tax) in any calendar month (superannuation does not have to be provided in respect of that month)
- aged 70 years and over
- non-resident employees who are paid solely for work undertaken outside Australia
- under 18 years old and employed part-time (that is, employed to work for no more than 30 hours per week), or
- paid to do work of a domestic or private nature for 30 hours per week or less.

For a full list of exemptions, please refer to *Superannuation guarantee – How to understand and meet your superannuation guarantee obligations (an employers guide)* (NAT 1987).

What organisations are exempt from the superannuation guarantee charge?

No organisations are exempt – all are subject to the superannuation guarantee legislation, including those organisations that are exempt from income tax.

How much is your organisation required to pay?

The minimum amount of superannuation support you must provide for your employees for the 2002–03 and later years is 9% of each employee's earnings base (usually ordinary time earnings).

Any existing superannuation obligations under an industrial award count towards the minimum level of support, as do payments made under a salary sacrifice arrangement. However employee contributions do not count towards the employer's obligations.

Employer contributions must be paid at least quarterly to a complying superannuation fund or retirement savings account. The table below shows the quarterly due dates.

Superannuation guarantee charge

If you don't pay the minimum level of superannuation support for your employees by the quarterly cut-off date, you must lodge a *Superannuation guarantee statement* and pay the superannuation guarantee charge to the Tax Office.

The charge includes the shortfall between what you should have paid and what you actually paid, and administration and interest components.

If you make sufficient superannuation contributions for your eligible employees by the relevant due dates, those contributions are generally tax deductible. However, the superannuation guarantee charge is not tax deductible.

From 1 January 2006, late employer contributions made to a fund or RSA on or before the due date for lodgment of their quarterly statement can offset part of the shortfall and nominal interest components of the superannuation guarantee charge if the employer makes an election. The employer has to lodge a *Superannuation guarantee charge statement – quarterly* (NAT 9599) with a late payment election and pays only the remaining part of the superannuation guarantee charge to the Tax Office.

Superannuation quarters and due dates

Superannuation guarantee quarter	Due date for payment of superannuation contributions	Due date for lodgment of statement and payment of superannuation guarantee charge
1 July – 30 September	28 October	28 November
1 October – 31 December	28 January	28 February
1 January – 31 March	28 April	28 May
1 April – 30 June	28 July	28 August

Reporting to employees

Note: From 1 July 2003 employers were required to report to their eligible employees (in writing) the amount of contributions made on their behalf. This requirement had to be within 30 days from the date on which the employer's last contribution for the quarter was made.

From 1 January 2005, employers are not required by the superannuation guarantee legislation to report to employees on employer superannuation contributions made on or after 1 January 2005.

Choice of superannuation funds

From 1 July 2005, most employees have the right to choose the fund into which their superannuation guarantee contributions are paid. Previously, only the employer could choose the fund to which the contributions of their employees were paid, unless it was set out in an award or other industrial agreement.

The choice of superannuation fund was extended from 1 July 2006 to cover more employees. Generally, employers must offer a choice of superannuation fund to an employee unless they make superannuation contributions for an employee under:

- an Australian Workplace Agreement (AWA) or a certified agreement under the *Workplace Relations Act 1996* or the *Industrial Relations Act 1988*
- a former state industrial agreement known under WorkChoices as a 'preserved state agreement', or
- a state industrial award or state industrial agreement.

If an employee is engaged under a federal award an employer **must** offer choice whether or not that award requires contributions to be made to a superannuation fund. An employer must accept an eligible employee's valid choice even if it is a fund not mentioned in the federal award that governs their employment.

Most employees who are members of defined benefit funds will not be eligible to choose a superannuation fund.

You must give your eligible employees a standard choice form which will advise them of the important matters they should consider before they exercise choice (eg insurance coverage). Where an employee does not choose a fund, you must continue to make contributions to the default eligible choice fund specified in the standard choice form provided that the fund offers a minimum level of insurance cover.

For employees who were eligible employees prior to the introduction of choice, you were required to provide them with a choice of superannuation fund by 29 July 2005. For new eligible employees after 1 July 2005 you must provide them with a standard choice form within 28 days of the day they start work with you. If you fail to comply with the choice of fund requirements, your individual superannuation guarantee shortfall can be increased.

➤ For more information refer to:

- *Superannuation guarantee – a guide for employers* (NAT 1987)
- *Choice of superannuation fund – guide for employers* (NAT 13185)
- *Choice of superannuation fund Standard Choice Form – information for employees* (NAT 13080).

To obtain these publications, see 'More information' on the inside back cover.

If you need more information about categories of employees, or if you need to find out whether the fund you have chosen meets government standards:

- visit our website at www.ato.gov.au/super or
- phone **13 10 20**.

ELIGIBLE TERMINATION PAYMENTS

When people stop working due to redundancy, invalidity, retirement or death, they are often entitled to an eligible termination payment (ETP). ETPs are subject to concessional tax treatment.

➤ For more information refer to *Eligible Termination Payments – A practical guide for employers in meeting your obligations to employees who stop working for you* (NAT 2698).

To obtain this publication, see 'More information' on the inside back cover.

HIGHER EDUCATION DEBTS

Higher Education Contribution Scheme (HECS)

There were four schemes offering Commonwealth loans to assist students to pay their higher education fees. On 31 December 2004 these schemes ended. If the Commonwealth lent your employee or payee money under any of these schemes, they will have an accumulated HECS debt.

Higher Education Loan Program (HELP)

From 1 January 2005 a new suite of loans known as the Higher Education Loan Program replaced HECS.

If any of your employees or other payees have an accumulated HECS or HELP debt, they must advise you of this when they complete their *Tax file number declaration* (NAT 3092). If they acquire a HELP debt after they start working for you, they must advise you of this by completing a *Withholding declaration* (NAT 3093).

Under the PAYG withholding system, you need to withhold additional amounts from their payments and send these amounts to the Tax Office.

➤ For more information refer to *HECS and HELP information for payers* (NAT 5073).

To obtain this publication, see 'More information' on the inside back cover.

EMPLOYEES AND CHILD SUPPORT

Sometimes employers are required to deduct money from employees' pay under the Child Support Scheme.

You do not need to do anything unless you are asked to by the Child Support Agency. If this happens, you will receive an employer package about what to do.

! CHILD SUPPORT DEDUCTIONS

Child support deductions are not taxation amounts, so they should not be shown on payment summaries.

It is illegal to discriminate against any employee or potential employee because of their child support or maintenance obligations.

➤ Contact details for the Child Support Agency (CSA) are:

- Employer enquiry line: **1300 362 366**
- CSA general enquiry line: **131 272**
- CSA website **www.csa.gov.au**

Ask CSA about *CSAonline* – a secure internet service available 24 hours a day, seven days a week. For more information view the website or call the employer helpdesk on **1800 637 445**.

INDEPENDENT CONTRACTORS AND TAX

Under the pay as you go system, independent contractors can either provide for their own income tax liability by paying PAYG instalments, or enter into voluntary agreements authorising their payers to withhold amounts from their payments.

Voluntary agreements

If an organisation that is carrying on an enterprise engages an individual contract worker who has an ABN, the organisation and the worker can make a voluntary agreement to bring the worker's payments into the PAYG withholding system. They can only do this if the payments are not subject to any other PAYG withholding requirement and the payment is in whole or part for the performance of work or services.

If the organisation and the worker make a voluntary agreement, the organisation will withhold amounts from payments it makes to the worker and send these amounts to the Tax Office. The contract worker will not be required to pay PAYG instalments for that income because it has already been subject to PAYG withholding and therefore is not included in the worker's instalment income.

An organisation and a worker can enter into a voluntary agreement only if the worker is an individual who has an ABN. If the worker is working under a company, partnership or trust structure, they cannot enter into a voluntary agreement.

To enter a voluntary agreement, the organisation and the worker may complete the *PAYG voluntary agreement form* (NAT 2772). These forms are available from the Tax Office. It is not compulsory to use this form. You can make your own written agreement as long as it includes all information required by the form.

➤ For more information refer to *PAYG voluntary agreement* (NAT 3063).

To obtain this publication, see 'More information' on the inside back cover.

Labour hire arrangements

Labour hire arrangements commonly involve at least two contracts. A user of labour (the client) typically contracts with a labour hire firm for the provision of labour of a specified kind. The labour hire firm does not contract to perform the work; it merely contracts to provide labour to work under the direction of the client. The labour hire firm then contracts with the worker and pays the worker. There is no contract between the worker and the client.

Under PAYG withholding, a labour hire firm must withhold amounts from payments it makes to its workers for performing services for its client under the labour hire arrangement. There is no requirement for the client organisation to withhold from the payment to the labour hire firm (unless the labour hire firm has not quoted its ABN).

➤ For more information refer to *PAYG bulletin no. 3 pay as you go – withholding and labour hire firms* (NAT 3473).

To obtain this publication, see 'More information' on the inside back cover.

VOLUNTEERS AND TAX

Non-profit organisations often depend on volunteers to provide and maintain services.

As a general rule:

- volunteers do not have to pay tax on payments or benefits they receive in their capacity as volunteers, and
- non-profit organisations are not liable for PAYG withholding and FBT on payments they make, or benefits they provide, to volunteers.

There are exceptions. For example, an organisation may be required to withhold from a payment to a volunteer where the payment is for a supply of goods or services made in the course of an enterprise carried on by the volunteer, and the volunteer has not quoted their ABN.

Purchases for volunteers

If an organisation is registered for GST it is entitled to claim a GST credit for the GST included in the price of most purchases that it makes in carrying on the organisation's activities. This includes things that it purchases for its volunteers.

Reimbursements to volunteers

When reimbursing volunteers for expenses they have incurred, an organisation can in certain circumstances claim GST credits.

➤ For more information refer to *Volunteers and tax* (NAT 4612).

To obtain this publication, see 'More information' on the inside back cover.

05 FUNDRAISING

- Deductible gift recipients **page 32**
- Tax deductible gifts **page 33**
- Tax deductible contributions **page 34**
- Workplace giving programs **page 35**
- GST **page 35**
- State/territory and local government regulations **page 35**

To receive income tax deductible gifts and contributions an organisation must be a deductible gift recipient (DGR). Some DGRs are listed by name in the tax law but most must apply to the Tax Office to be endorsed as DGRs.

Donors claim income tax deductions for gifts to DGRs in their income tax returns. There are rules about the types of deductible gifts including how much can be claimed for the gift.

Contributions made by individuals to DGRs in relation to DGR fundraising events such as fetes, balls, gala shows, dinners and charity auctions may be tax deductible.

Organisations/businesses may collect gifts on behalf of DGRs through workplace giving arrangements.

When planning fundraising activities organisations should consider GST aspects and any state/territory and local government requirements for fundraising activities.

DEDUCTIBLE GIFT RECIPIENTS

Certain organisations are entitled to receive income tax deductible gifts and tax deductible contributions. They are called deductible gift recipients (DGRs).

What is a deductible gift recipient?

The income tax law determines which organisations and types of organisations can qualify as DGRs. DGRs are:

- endorsed by the Tax Office, or
- listed by name.

All DGRs (except those listed by name) must be endorsed by the Tax Office. If they are not endorsed, donors cannot claim income tax deductions for their gifts.

- ! You can check if an organisation is a DGR by:
- visiting the Australian Business Register website at **www.abn.gov.au** or
 - phoning the Tax Office on **13 28 61**.

DGRs listed by name

DGRs listed by name include prescribed private funds and organisations such as the Australian Sports Foundation and Amnesty International Australia. There are two ways organisations can become DGRs listed by name. For prescribed private funds, the government gazettes them into the income tax regulations. For others, Parliament amends the income tax law to list the organisation by name in the income tax law.

- For more information refer to the 'DGRs listed by name' chapter in our guide *GiftPack for deductible gift recipients & donors* (NAT 3132).

To obtain this publication, see 'More information' on the inside back cover.

Endorsed DGRs

For other organisations to be DGRs, they must fall within a general DGR category set out in the income tax law.

Examples of the general categories include:

- health promotion charities
- school building funds
- public benevolent institutions
- overseas aid funds
- registered cultural and environmental organisations, and
- public libraries, museums and art galleries.

What are the types of DGR endorsement?

There are two types of endorsement:

- where an organisation as a whole is endorsed as a DGR, and
- where an organisation is endorsed as a DGR for the operation of a fund, authority or institution that it owns or includes.

If an organisation is endorsed as a whole, gifts to the entire organisation may be tax deductible. If an organisation is endorsed for the operation of a fund, authority or institution, only gifts to this part of the organisation may be tax deductible.

Is your organisation entitled to DGR endorsement?

To be entitled to DGR endorsement, your organisation must:

- fall within a general DGR category as set out in the tax law
- have an Australian business number
- have an appropriate dissolution/revocation of endorsement clause(s)
- maintain a gift fund (if seeking endorsement for the operation of a fund, authority or institution), and
- be in Australia (with some exceptions).

Organisations that meet the requirements for endorsement can apply to the Tax Office using an *Application for endorsement as a deductible gift recipient* (NAT 2948). Instructions are also available.

Maintaining DGR status

To maintain their endorsed status, most DGRs will need to:

- include specific information on receipts
- self-review their entitlement to DGR endorsement, and
- continue to be in Australia (with some exceptions).

➤ For more information refer to the 'Endorsed DGRs' chapter in our guide *GiftPack for deductible gift recipients & donors* (NAT 3132).

To obtain this publication, see 'More information' on the inside back cover.

TAX DEDUCTIBLE GIFTS

For a donor to claim a tax deduction for a gift, the payment must:

- be truly a gift
- be made to a DGR
- be a gift of money or a certain type of property, and
- comply with any relevant gift conditions.

What is a gift?

Not all payments to DGRs are tax deductible. Gifts have the following characteristics:

- there is a transfer of money or property
- the transfer is made voluntarily
- the transfer arises by way of benefaction, and
- no material benefit is received by the donor.

Examples of payments that are not gifts include:

- purchases of raffle or art union tickets
- purchases of items such as chocolates and pens
- the cost of attending fundraising dinners, even if the cost exceeds the value of the dinner
- membership fees
- payments to school building funds as an alternative to an increase in school fees, and
- payments where the person has an understanding with the recipient that the payments will be used to provide a benefit for the 'donor'.

Gift conditions

For some DGRs, the income tax law adds extra conditions affecting the kinds of deductible gifts they can receive.

The gift may only be tax deductible:

- between certain dates, or
- for a specific use.

Donors should ask DGRs if conditions apply.

How much can be claimed?

The amount of the deduction depends on the type of gift.

For gifts of money, it is the amount of the gift. For gifts of property, there are various valuation rules.

The deduction for a gift cannot add to or create a tax loss.

In certain circumstances, donors can elect to spread a gift deduction over a period of up to five years.

What records do donors need?

Donors should keep records of their deductible gifts, including:

- the date the gift was made
- the name of the DGR to which the gift was donated
- the amount of the gift
- any elections to spread the deduction, and
- a description of the gift if it was property.

When property has been gifted, additional details may need to be recorded. This will help when preparing tax returns and in case claims are checked by the Tax Office.

DGRs are not required by the income tax law to issue receipts for deductible gifts, but any receipts issued must specify:

- that the receipt is for a gift
- the name of the DGR, and
- the ABN of the DGR.

➤ For more information refer to the 'Donors and gifts' chapter in our guide *GiftPack for deductible gift recipients & donors* (NAT 3132).

To obtain this publication, see 'More information' on the inside back cover.

TAX DEDUCTIBLE CONTRIBUTIONS

Certain DGR fundraising events encourage contributions which may at the same time extend minor benefits to the contributor.

Contributions made by individuals to DGRs in relation to DGR fundraising events such as fetes, balls, gala shows, dinners and charity auctions may be tax deductible.

To be deductible, a contribution must meet several requirements:

- the contribution must be made to a DGR for:
 - a right to attend or participate in a fundraising event in Australia, or
 - the purchase of goods or services as a successful bidder at an auction that is, or is at, a fundraising event in Australia
- the contribution must be more than \$250 (and can include property contributions made for a right)
- the GST inclusive value of the right or the goods or services (the benefit) must not exceed the lesser of \$100 and 10 per cent of the value of the contribution
- the contribution must satisfy any gift conditions relating to the DGR as though it was a gift, and
- the contribution must be made by an individual.

⚠ The government has announced that it will extend the thresholds for tax deductible contributions with effect from 1 January 2007. Under the proposal, a tax deduction will be available where the value of the contribution is more than \$150 (previously \$250), and the value of the benefit received is no more than the lesser of \$150 (previously \$100), and 20 per cent (previously 10 per cent) of the value of the contribution.

These changes had not become law at the time of printing.

The deduction is limited to that part of the contribution that is in excess of the benefit received in return for making the contribution.

Testamentary contributions, that is, contributions made under a will, are not tax deductible.

➤ For more information refer to *Non-profit organisations and fundraising* (NAT 13095).

To obtain this publication, see 'More information' on the inside back cover.

WORKPLACE GIVING PROGRAMS

Workplace giving programs are arrangements where:

- part of an employee's pay is paid, or is to be paid, as a gift to a DGR
- the gift is paid by the employer at the direction of the employee, and
- the gift is made under a regular planned giving arrangement.

If a portion of an employee's pay is donated to a DGR through regular payroll deductions, the employer may reduce the PAYG amount it withholds from that employee's pay. For employees, this means they may get the benefit of the reduced tax immediately in their pay.

While the PAYG withholding amount can be reduced because of a gift made through a workplace giving program, the total pay on the employee's payment summary is not reduced by the amount of the gift. This means the employee must claim a deduction for the gift in their annual tax return so that the correct tax can be calculated.

DGRs are not required to issue receipts to donors, although an employer may request a receipt from the DGR.

All the employee needs for their tax records is a statement from their employer.

➤ For more information on workplace giving, refer to *How to set up a workplace giving program* (NAT 9185).

To obtain this publication, see 'More information' on the inside back cover.

STATE/TERRITORY AND LOCAL GOVERNMENT REGULATIONS

Fundraising activities such as bingo, raffles and doorknock appeals are regulated by state and territory authorities. As each state has its own laws for these activities, you should direct any enquiries about state and territory regulations to the relevant authority in your area.

The use of public places such as parks, streets and sporting grounds are regulated by local government. If your organisation's fundraising activities involve the use of a public place, you should check with your local council regarding its requirements.

➤ For more information refer to *Non-profit organisations and fundraising* (NAT 13095)

To obtain this publication, see 'More information' on the inside back cover.

GST

If your non-profit organisation is registered (or required to be registered) for GST, the money raised from fundraising activities will be subject to GST unless the funds are a genuine gift to your organisation. If you are a charity, gift deductible entity or government school, the money raised from fundraising events will not be subject to GST if your organisation:

- raises the funds by selling donated second hand goods
- raises the funds by holding a raffle or bingo, or
- is able to treat any sales connected with the fundraising event as input taxed. In this case, the funds raised will not be subject to GST, but your organisation will not be able to claim credits for the GST in any purchases connected with the event.

For more information on GST concessions available to non-profit organisations, see chapter 03 'Goods and services tax' on page 13.

06

RECORD KEEPING, ADMINISTRATION AND PAYMENT

- Record keeping **page 36**
- Bank accounts and tax file number requirements **page 37**
- Proving eligibility for supplier discounts **page 37**
- Withholding in business transactions **page 37**
- Reporting and paying tax **page 39**
- Budgeting to pay tax **page 41**

Good business records help you manage your organisation's tax obligations and make it easier to report to the Tax Office.

Certain non-profit organisations can claim an exemption from quoting a tax file number to their investment body (such as a bank, building society, unit trust or public company).

A number of commercial suppliers offer discounts to non-profit organisations. Suppliers sometimes ask non-profits to provide proof of their tax status to qualify for a discount.

Anyone carrying on an enterprise (this is usually a business) should quote their ABN in relation to goods or services they supply to another enterprise. If they don't, the general rule is that the payer must withhold 46.5% from the payment to the supplier and send the withheld amount to the Tax Office. Some payments are excluded from this rule.

If your non-profit organisation is taxable, you need to know how to report, pay and budget for its tax obligations.

RECORD KEEPING

Basic records you may need to keep

Good records help you manage your organisation and make sound decisions. Some of the basic records you may need to maintain are:

- cash book records of daily receipts and payments
- GST tax invoices and income tax records, such as debtors and creditors lists, stocktake records and motor vehicle expenses
- records of payments relating to employees, such as PAYG withholding, superannuation and fringe benefits payments
- records of payments withheld from suppliers who do not quote an ABN, and
- bank reconciliation statements.

Using an electronic record keeping system may save you further time and effort. A free electronic record keeping package, e-Record is available from the Tax Office.

➤ For more information refer to *Record keeping for small business* (NAT 3029).

To obtain this publication, see 'More information' on the inside back cover.

You can also:

- visit **www.ato.gov.au** to download a copy of e-record, or
- phone **13 72 26** and request a CD-ROM (NAT 3043).

Invoices you receive

An invoice of more than \$50 (excluding GST) should show your supplier's ABN. Otherwise, you generally need to withhold 46.5% from your payment to the supplier.

You cannot claim a GST credit in an activity statement unless you have a tax invoice. If you obtain a tax invoice later, you can claim the GST credit in the activity statement for the tax period in which you obtain the tax invoice.

Tax invoices are not required if the GST-exclusive value of the sale is \$50 or less. However, you should have some documentary evidence to support all GST credit claims.

If you ask a GST-registered supplier to provide you with a tax invoice, they must do so within 28 days after your request. Organisations that are not registered for GST cannot issue tax invoices.

BANK ACCOUNTS AND TAX FILE NUMBER REQUIREMENTS

If your organisation has savings accounts or investments, there will be times when you have to quote your organisation's tax file number (TFN) or ABN. This helps ensure everybody pays the correct amount of tax on income they receive from interest, dividends and unit trust distributions.

It is not compulsory to quote your organisation's TFN or ABN for savings accounts and investments – it is your choice. However, if you do not quote one of these numbers, your organisation may have tax withheld from it at the rate of 46.5%.

If you decide to quote your organisation's TFN or ABN, you need to contact your investment body about each account or investment you want to quote it for.

Which number does your organisation quote to its investment body?

You can quote your organisation's TFN or ABN.

What if your organisation does not have a TFN or ABN?

If your non-profit organisation does not have a TFN or ABN and is not required to lodge an income tax return, you can claim an exemption from quoting a TFN to your investment body.

What happens if your organisation does not quote its TFN or ABN?

If your organisation chooses not to:

- quote its TFN or ABN (and its income from interest and other investments is more than or equal to the relevant threshold), or
- claim an exemption from quoting a TFN

your organisation will have tax withheld from its interest and other investment income at the rate of 46.5%. The amount withheld is called a TFN amount.

Can your organisation claim a credit or refund of TFN amounts withheld?

Your organisation can claim a credit of TFN amounts withheld if it is required to lodge an income tax return. In your organisation's return, it must show the TFN amounts that were withheld, and we will credit the total amount on its assessment notice.

Your organisation can claim refunds directly from its investment body or from the Tax Office, depending on the circumstances.

➤ For more information refer to *Tax file number withholding on accounts and investments held by non-profit organisations* (NAT 6416).

To obtain this publication, see 'More information' on the inside back cover.

PROVING ELIGIBILITY FOR SUPPLIER DISCOUNTS

A number of commercial suppliers offer discounts to non-profit organisations on items such as telephone, telecommunications and transport costs. The supplier often requests documentation from the organisation to prove its status as a charity, public benevolent institution or other type of non-profit organisation.

Organisations that are endorsed as deductible gift recipients (DGRs), or income tax exempt charities or income tax exempt funds will have written confirmation from the Tax Office confirming their income tax status.

However, many non-profit organisations can self-assess their income tax status, which means they may not have any form of written confirmation from the Tax Office saying they are income tax exempt. These organisations should contact their suppliers to find out what documentation they need to give them in order to get a discount.

➤ For more information refer to the fact sheet *Proving eligibility for discounts offered to non-profit organisations by suppliers* (NAT 7516).

To obtain this publication, see 'More information' on the inside back cover.

WITHHOLDING IN BUSINESS TRANSACTIONS

Any business or other organisation carrying on an enterprise should quote their ABN in relation to goods or services they supply to another enterprise.

If they do not quote their ABN, the general rule is that the payer must withhold 46.5% from their payment and send the withheld amount to the Tax Office. Some payments are excluded from this rule.

Receive and keep a record of your supplier's ABN

When your organisation acquires any goods or services, make sure your supplier quotes their ABN to you before you make any payment to them. Most suppliers quote their ABN on their invoice, and you need to keep this invoice in your business records.

A supplier may also quote their ABN to you on another document as long as it relates to the supply they are making. For example, they can quote their ABN on:

- a quotation notice that relates to the supply
- a renewal notice for insurance or subscriptions
- an order form that you used to order the supply
- a contract or lease document
- a catalogue produced by the supplier, or
- a voluntary withholding agreement.

A supplier should quote their ABN to you if they are carrying on an enterprise

For tax purposes, *enterprise* includes activities undertaken by a charitable institution or by a trustee of a charitable fund. It also includes such activities as:

- a business
- a service provided to you by an independent contractor
- the rent of a commercial property, and
- most other things in the nature of trade.

But *enterprise* does not include an activity carried on:

- as an employee, director, office holder or a labour hire worker, or
- as a private recreational pursuit or hobby (for example, where someone sells you handicrafts they make as a hobby).

Make sure the supply is excluded from the ABN rule

Your organisation should not withhold if:

- the total payment to the supplier is \$50 or less, excluding any GST
- the supplier is an individual under 18 years of age, is not your employee, and the payments you make to that person do not exceed \$120 per week, or
- the supply is wholly input taxed under GST. This includes most financial supplies, supplies of residential rent, residential premises and some precious metals, and food supplies by school tuckshops and canteens that have chosen to be input taxed. Contact us if you're not sure whether a supply is input taxed.

Also, your organisation should not withhold if it is satisfied that:

- the supply is made in the supplier's private capacity, or as their hobby
- the payment is exempt income for the supplier (for example, the supplier is an income tax exempt charity)
- the payment is to a non-resident who is not carrying on an enterprise in Australia or through an agent in Australia, or
- the supplier is not an enterprise because they have no reasonable expectation of profit or gain.

If your organisation is unsure, ask the supplier to give your organisation a written statement that the supply is excluded for one of these reasons. You or your supplier can print *Statement by a supplier (reason for not quoting an ABN to an enterprise)* (NAT 3346), for this purpose.

Your organisation must keep this statement for five years.

➤ For more information refer to taxation ruling TR 2002/9 *Withholding from payments where recipient does not quote ABN*.

To obtain this publication, see 'More information' on the inside back cover.

Withhold from the payment

If a supplier does not quote their ABN to your organisation and you are not satisfied that one of the exclusions applies, your organisation must withhold 46.5% of the total payment.

Your organisation should also withhold if it doubts that the ABN quoted is correct. If you are unsure, you can check the validity of a supplier's ABN by using the Australian Business Register.

➤ To check an ABN with the Australian Business Register:

- phone the automated checking service on **13 72 26**, or
- visit **www.abr.business.gov.au**

If your organisation withholds from a payment, it needs to make sure it is registered for PAYG withholding.


Complete a payment summary form and give it to the supplier at the same time as your organisation pays them the net amount, or as soon as possible afterwards. The supplier will need this payment summary to claim the withheld amount as a credit when they lodge their income tax return.

➤ There is a sample of the payment summary form on our website at **www.ato.gov.au**


If it is not yet registered, phone the Tax Office on **13 28 66**.

⚠ WHAT IF THE SUPPLIER HAS APPLIED FOR AN ABN?

Before you withhold, you could offer to hold back payment until the supplier has obtained and quoted their ABN. Delaying the payment is a matter for you and your supplier to work out.

 You should not make full payment to the supplier on the understanding that an ABN will be quoted later. If you fail to withhold from the payment you can be held liable for the amount you did not withhold. You may also be prosecuted.

If your organisation is withholding from employee wages, it should already be registered for PAYG withholding. It may have done this when it applied for an ABN. If it did not, it can still register for PAYG withholding.

-  To register for PAYG withholding complete:
- Add a new business account (NAT 2954) if your organisation has an ABN, or
 - Add a PAYG withholding account (and issue a withholding payer number) (NAT 3377) if your organisation is not required to have an ABN.

To obtain these publications, see 'More information' on the inside back cover.

You need to add together any amounts your organisation has withheld for PAYG withholding purposes and send the total to the Tax Office with its next activity statement.

QUOTE YOUR ABN ON YOUR BUSINESS STATIONERY

It is a good idea to quote your organisation's ABN on its invoices and other stationery to avoid having amounts withheld from payments for supplies your organisation has made. If your organisation is registered for GST, other organisations will also need your organisation's ABN on the tax invoice to claim GST credits for the GST included in the price of goods and services your organisation supplies to them.

REPORTING AND PAYING TAX

Activity statements

Many business taxes are completed on a single form called an activity statement. Your organisation uses an activity statement to report and pay PAYG (instalments and withholding), FBT instalments, GST and related tax obligations.

We will send your organisation a personalised activity statement to complete and lodge, with some parts already filled in to save it time and effort. The activity statement will generally only show the obligations that relate to your organisation. For example, if your organisation is not registered for PAYG withholding, this section will not appear on the activity statement.

Who should use an activity statement?

An activity statement or GST return must be completed at the end of each reporting period (month, quarter or year) if your organisation has any PAYG, FBT or GST and related obligations, even if the amount to report is nil for that period.

How often to lodge

Your organisation lodges an activity statement monthly, quarterly or annually – we specify how often on the form. We also preprint information showing the period covered by the activity statement for each of its obligations.

We tell you on the activity statement when to lodge and pay. If your organisation reports and pays quarterly, the due dates are:


Quarter 1	July, August and September	due 28 October
Quarter 2	October, November and December	due 28 February
Quarter 3	January, February and March	due 28 April
Quarter 4	April, May and June	due 28 July

If a tax agent prepares and lodges quarters 1, 3 or 4 or you lodge via an approved secure electronic method then a later lodgement and payment due date may apply.

If your organisation reports and pays monthly, its activity statement and payment is due on the 21st day after the end of the month. For example, your organisation's July monthly activity statement is due on 21 August.

If your organisation reports and pays annually, its annual GST return and payment are due at the same time as its income tax return. If your organisation is not required to lodge an income tax return, then it must lodge and pay its annual GST return by 28 February.

If the due date falls on a weekend or public holiday, you can lodge your form and make any payment due on the next business day without penalty.

 If you are unable to lodge or pay on time please phone us on **13 11 42** to discuss.

➤ Refer to the following activity statement instructions:

- *PAYG Instalments* (NAT 7393)
- *PAYG Withholding* (NAT 7394)
- *GST* (NAT 7392)
- *WET* (NAT 7390)
- *LCT* (NAT 7391)
- *FBT* (NAT 7389)

To obtain these publications, see 'More information' on the inside back cover.

Do your activity statements online

There's now an easier way for non-profit organisations to do their activity statements – the Business Portal.

The portal is a new part of the Tax Office website that gives you free, secure online access to your organisation's tax details. This means less time on the phone finding out about your organisation's tax affairs.

Using the Business Portal, you can:

- view your accounts online (including activity statements, income tax and fringe benefits tax)
- request transfers and refund of credit amounts
- view and update some of your organisation's registration details, and
- send and receive secure messages.

➤ To find out more, visit www.ato.gov.au/onlineservices

Payment options

The Tax Office offers several different payment methods.

Payment by electronic means is the preferred method for the Tax Office to receive payments. Tax payments can be made electronically by BPAY®, direct credit or direct debit. They can also be posted to us or made at Australia Post outlets.

BPAY

Use your financial institution's phone or internet banking service to transfer funds from your cheque or savings account. You need to quote the Tax Office biller code (**75556**) and use your EFT code as the customer reference number.

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Direct credit

You can electronically transfer funds to the Tax Office's direct credit bank account using online banking facilities. Use BSB **093 003**, Account number **316 385** and record your EFT code in the Reference or Description field. This will ensure the payment is correctly recorded on your tax account.

Direct debit

You can have your tax liability electronically debited from a nominated financial institution account – but not a credit card account. To establish a direct debit you will need to complete and send a direct debit request (NAT 2284) form to us. Phone **1800 802 308** for a direct debit request form and/or details.

Mail payments

You can mail a cheque or money order to the address printed on the payment slip forwarded by us. If a payment slip is not available, you will need to provide your full name, address, phone number, type of tax being paid and your tax file number or ABN. Forward this information and your payment to the appropriate address as shown below.

If you live in **WA, SA, NT, TAS,** or **VIC**, send to:

Australia Taxation Office
Locked Bag 1936
ALBURY NSW 1936

If you live in **NSW, ACT,** or **QLD**, send to:

Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793

Cheques and money orders should be for amounts in Australian dollars and payable to 'Deputy Commissioner of Taxation'. They should be crossed 'Not Negotiable' and must not be post dated. Do not attach pins or staples to your cheque.

Post office

If you have a pre-printed payment slip with a barcode, you can pay in person at any Australia Post outlet by cash, EFTPOS or cheque. Limits apply to cash and EFTPOS transactions. Cheques should be for amounts in Australian dollars and payable to 'Deputy Commissioner of Taxation'. They should be crossed 'Not Negotiable' and must not be post dated.

For more information about:

- BPAY, direct credit payments, mail payments and post office payments, phone **1800 815 886** or send an email to payment@ato.gov.au
- direct debit payments, phone **1800 802 308** or send an email to eft-information@ato.gov.au

Payments **cannot** be made in person at any Tax Office branch or Tax Office Shopfront site.

We **do not** accept payment by credit card.

Voluntary payments

If you want to make a voluntary or early payment to offset a future liability, you can do so by BPAY or direct credit using your EFT code, or by ordering a book of personalised payment slips by phoning us on **13 11 42**.

BUDGETING TO PAY TAX

Budgeting for your organisation's tax obligations is the same as budgeting for any other expense. You will need to work out how much tax your organisation has to pay and then put enough money aside to cover the tax bill when it is due.

Because tax bills are often payable on a quarterly or yearly basis, they may be overlooked when you budget for more frequent bills or expenses. When the time comes to pay your organisation's tax bill, you may find that the money is not there, or you may have to find extra money because your bill is larger than you anticipated.

The following suggestions will help you to budget for your tax:

- **GST reporting:** Even if you are eligible to report your organisation's GST quarterly or annually, consider reporting monthly. Monthly tax periods may suit your organisation if it is likely to claim a GST refund regularly, for example, if your organisation has a large volume of exports compared with taxable sales, or if your organisation is likely to be making large outlays for capital equipment. You can claim GST credits sooner if your organisation has monthly tax periods.
- **Income tax:** Estimate your organisation's income for the current financial year and its likely tax liability. Update your organisation's projection during the year as more information on sales and expenses becomes available.
- **Record keeping:** Save time and effort by using an electronic record keeping system. E-record, a basic electronic record keeping system is available from the Tax Office. You can obtain a copy of e-record by:
 - visiting our website at www.ato.gov.au or
 - phoning **13 72 26** to obtain a version on CD-ROM.

Alternatively, there are a number of commercially available products. To find commercially available software that will assist you to meet your tax obligations, visit our Product Register at www.ato.gov.au/softwaredevelopers

- **Voluntary payments:** You can make a voluntary or early payment to offset a future liability. You can do this by BPAY or direct credit using your EFT code. Alternatively, you can request a book of personalised payment slips and use these to either pay over the counter at Australia Post or to send with a cheque through the mail.


- Stamp duty **page 42**
- Payroll tax **page 42**
- Land tax **page 43**
- Contact details **page 43**

Taxes that may be levied by state and territory governments include:

- stamp duty (or duty in Queensland and Victoria)
- payroll tax, and
- land tax.

Each state has its own laws for these taxes, administered by its revenue office from which further information is available. Contact details are provided.

Enquiries about state and territory taxes should not be directed to the Tax Office.

 States and territories also have their own laws regulating the fundraising activities of non-profit organisations.

For more information on fundraising requirements, see 'State/territory and local government regulations' on page 35.

STAMP DUTY

Stamp duty is a tax on written documents ('instruments') and certain transactions including motor vehicle registrations and transfers, insurance policies, leases, mortgages, hire purchase agreements and transfers of property (such as businesses, real estate and certain shares).

The rate of stamp duty varies according to the type and value of the transaction involved. Depending on the nature of the transaction, certain concessions and exemptions may be available.

Queensland does not levy duty on leases, marketable securities, credit card and credit business transactions, and the hire of goods.

South Australia does not levy stamp duty on owner-occupied home mortgages and leases.

Tasmania does not levy stamp duty on unlisted securities, leases and the hire of goods.

Victoria does not levy stamp duty on unlisted securities, leases and mortgages.

Western Australia does not levy stamp duty on marketable securities and leases.

The ACT does not levy duty on mortgages.

The Northern Territory does not levy stamp duty on mortgages, marketable securities and the grant and renewal of a lease.

As requirements vary between states and territories, organisations should seek clarification from their local state/territory revenue office.

PAYROLL TAX

Payroll tax is a tax on the wages paid by employers. Employers are liable for payroll tax when their total Australian wages exceed a certain level called the 'exemption threshold'. Exemption thresholds vary between states.

Payroll tax should not be confused with the pay as you go (PAYG) withholding system. Payroll tax is payable to the state by an employer, based on the total wages paid to all employees.

Under the PAYG withholding system, amounts are generally withheld from payments made to an individual and sent to the Tax Office to offset the individual's end of year income tax liability.

For more information on PAYG withholding see 'Pay as you go withholding' on page 23.

Certain organisations may be exempt from payroll tax provided specific conditions are satisfied. These organisations may include religious institutions, public benevolent institutions, public or non-profit hospitals, non-profit non-government schools and charitable organisations.

As requirements vary between states, employers should seek clarification from their local state/territory revenue office.

LAND TAX

Land tax is imposed in all states and the Australian Capital Territory but not in the Northern Territory. It is a tax levied on landowners except in the Australian Capital Territory where it is levied on lessees under a Crown lease.

Landowners are generally liable for land tax when the unimproved value of taxable land exceeds certain thresholds (except in the ACT). In some states there are deductions and rebates available, depending on the use of the land.

Principal places of residence are usually exempt from land tax, although this is subject to certain qualifying criteria which vary between jurisdictions.

Land owned and used by certain organisations may be exempt from land tax. These organisations generally include non-profit societies, clubs and associations, religious institutions, public benevolent institutions and charitable institutions.

As requirements vary between states, organisations should seek clarification from their local state/territory revenue office.

CONTACT DETAILS

Each state and territory has its own department responsible for the administration of the various taxes and duties. For more information, contact your local state or territory government authority.

Australian Capital Territory

Authority: ACT Revenue Office
 Internet: www.revenue.act.gov.au
 Phone: (02) 6207 0028
 Fax: (02) 6207 0026
 Email: AdviceandAssessments@act.gov.au
 Write: GPO Box 293 Civic Square ACT 2608

South Australia

Authority: RevenueSA
 Internet: www.revenuesa.sa.gov.au
 Phone: 1800 637 778
 Fax: (08) 8226 3734
 Email: Revenuesa@saugov.sa.gov.au
 Write: GPO Box 1353 Adelaide SA 5001

New South Wales

Authority: Office of State Revenue NSW Treasury
 Internet: www.osr.nsw.gov.au
 Phone: (02) 9689 6200
 Fax: (02) 9689 6464
 Email: service@osr.nsw.gov.au
 Write: GPO Box 4042 Sydney NSW 2001

Tasmania

Authority: State Revenue Office
 Internet: www.sro.tas.gov.au
 Phone: 1800 001 388
 Fax: (03) 6234 3357
 Email: taxhelp@treasury.tas.gov.au
 Write: GPO Box 1374 Hobart TAS 7001

Northern Territory

Authority: Territory Revenue Management
 Internet: www.revenue.nt.gov.au
 Phone: 1300 305 353
 Fax: (08) 8999 5577
 Email: ntrevenue.ntt@nt.gov.au
 Write: GPO Box 154 Darwin NT 0801

Victoria

Authority: State Revenue Office Victoria
 Internet: www.sro.vic.gov.au
 Phone: 132 161
 Fax: (03) 9628 6222
 Email: sro@sro.vic.gov.au
 Write: GPO Box 1641N Melbourne Vic 3001

Queensland

Authority: Office of State Revenue
 Internet: www.osr.qld.gov.au
 Phone: 1300 300 734
 Fax: (07) 3836 0903
 Email: ClientContactCentre@osr.treasury.qld.gov.au
 Write: GPO Box 2593 Brisbane QLD 4001

Western Australia

Authority: Office of State Revenue
 Internet: www.osr.wa.gov.au
 Phone: (08) 9262 1400
 Fax: (08) 9226 0842
 Email: osr@dtf.wa.gov.au
 Write: GPO Box T1600 Perth WA 6845

DEFINITIONS

Activity statements

You use an activity statement to report your business tax entitlements and obligations, including GST, PAYG instalments, PAYG withholding and FBT instalments. You can offset tax payable against tax credits to arrive at a net amount.

Associates

Associates include people and entities closely associated with you, such as relatives, or closely connected companies or trusts. A partner in a partnership is an associate of the partnership.

Australian business number (ABN)

Your ABN is your identifier for certain dealings with the Tax Office and other government departments and agencies.

Charity

A charity is an institution or fund established for a charitable purpose.

Examples of charities include:

- religious institutions
- aged persons homes
- homeless hostels
- primary or secondary schools run by churches
- organisations relieving the special needs of people with disabilities, and
- societies that promote the fine arts.

For more information on charities, refer to *Income tax guide for non-profit organisations* (NAT 7967).

Charitable fund

A charitable fund is a fund established under an instrument of trust or a will for a charitable purpose. The purposes set out in the will or instrument of trust must be charitable. Charitable funds mainly manage trust property, and/or hold trust property to make distributions to other entities or people. In contrast, if the trustee mainly carries on activities that are charitable, the fund will be treated as a charitable institution and not as a charitable fund.

For more information on charities, refer to *Income tax guide for non-profit organisations* (NAT 7967).

Charitable institution

A charitable institution is an institution that is established and run to advance or promote a charitable purpose. An organisation's purposes can be found in its governing document/s and from its activities, history and control. A charitable institution will carry on charitable activities while a charitable fund mainly manages, and/or holds trust property.

For more information on charities, refer to *Income tax guide for non-profit organisations* (NAT 7967).

Charitable purpose

A charitable purpose is one which the law regards as charitable. The term 'charitable' has a technical legal meaning which is different from its everyday meaning. Charitable purposes are any of the following purposes:

- the relief of poverty or sickness or the needs of the aged
- the advancement of education
- the advancement of religion
- the provision of child care services on a non-profit basis, and
- other purposes beneficial to the community.

Deductible gift recipient (DGR)

A DGR is an organisation that is entitled to receive income tax deductible gifts. All DGRs have to be endorsed by the Tax Office, unless they are listed by name in the income tax law.

There are two types of endorsement:

- where an organisation is endorsed as a DGR in its own right, or
- where an organisation is endorsed as a DGR for a fund, authority or institution that it operates.

For the second type, only gifts to the fund, authority or institution are tax deductible.

For more information on DGRs, refer to *GiftPack for deductible gift recipients & donors* (NAT 3132).

Endorsement

Endorsement is the process under which organisations apply to the Tax Office for approval to:

- access charity concessions under the income tax, FBT and GST laws. The relevant application form is *Application for endorsement as a tax concession charity or income tax exempt fund* (NAT 10651), and/or
- receive income tax deductible gifts. The relevant application form is *Application for endorsement as a deductible gift recipient* (NAT 2948).

Enterprise

An enterprise includes a business and other commercial activities. It does not include:

- private recreational pursuits and hobbies
- activities carried on as an employee, labour hire worker, director or office holder, or
- activities carried on by individuals (other than trustees of charitable funds) or partnerships (in which all or most of the partners are individuals) without a reasonable expectation of profit.

It includes the activities of entities such as charities, deductible gift recipients, religious and government organisations, and certain non-profit organisations.

Entity

For the purposes of this publication, an entity means an individual, a body corporate, a corporation sole, a body politic, a partnership, an unincorporated association or body of persons, a trust or a superannuation fund.

In addition, the trustee of a trust or superannuation fund is taken to be an entity consisting of the people who are trustees at the time. That entity is a different entity to the person acting in their personal capacity. If reference is made to an entity of a particular kind (for example, trustee), it refers to the entity only in its capacity as that kind of entity.

Fringe benefits tax (FBT)

FBT is a tax payable by employers who provide fringe benefits to their employees or associates of their employees. For example, a fringe benefit is generally provided when an employer:

- allows an employee to use a work car for private purposes
- gives an employee a cheap loan, or
- pays an employee's private health insurance costs.

Gift deductible entity

An entity is a gift deductible entity if gifts or contributions made to it can be deductible under income tax law.

Goods and services tax (GST)

GST is a broad-based tax of 10% on the supply of most goods, services and anything else consumed in Australia and the importation of goods into Australia.

Government school

A government school is a school run by a Commonwealth, state or territory government that provides pre-school courses, full-time primary or secondary courses.

GST credit

A GST credit is what you claim to get back the GST you pay in the price of goods and services you purchase for your business or enterprise. You are entitled to a GST credit for the GST included in the price you pay for a purchase, or included in the price you paid on an import, if it is for use in your business or enterprise, but not to the extent that you use the purchase or import to make input taxed sales, or if the purchase or import is a private or domestic nature. You must have a tax invoice before you can claim a GST credit on your activity statement (except for purchases of \$50 or less excluding GST).

GST-free sales

You do not include GST in the price of GST-free sales that you make, but you are entitled to GST credits for things you have purchased or imported for use in carrying on your activities. Some examples of GST-free sales include basic food, exports, sewerage and water, the sale of a business as a going concern, non-commercial activities of charities and most education and health services.

Health promotion charity

A health promotion charity is a non-profit charitable institution whose principal activity is promoting the prevention or control of diseases in human beings. The characteristics of a health promotion charity are:

- its principal activity is promoting the prevention or control of diseases in human beings, and
- it is a charity which is a charitable institution.

Examples of activities that can promote the prevention or control of disease include:

- providing relevant information to sufferers of a disease, health professionals, carers and to the public
- researching how to detect, prevent or treat diseases, and
- developing or providing relevant aids and equipment to sufferers of a disease.

For more information on health promotion charities, refer to *GiftPack for deductible gift recipients & donors* (NAT 3132).

Income tax exempt charity

An income tax exempt charity is a charity that has been endorsed by the Tax Office as exempt from income tax.

Input taxed sales

You do not include GST in the price of input taxed sales you make, but neither are you entitled to GST credits for things you have purchased or imported that relate to making those input taxed sales. In some cases you may be entitled to claim reduced GST credits. Some examples of input taxed supplies include most financial supplies and supplies of residential rent and residential premises.

Instalment income

Generally, instalment income is your total ordinary income for the period for which you are paying your PAYG instalment.

Instalment rate

Your instalment rate is a percentage figure that approximates the proportion of your business and investment income that is paid as tax. It is worked out by the Tax Office based on information in your most recent income tax assessment. You multiply your instalment rate by your instalment income for a quarter (or year) to work out the amount to pay in your PAYG instalment. We will give you an instalment rate if you are required to pay PAYG instalments.

Non-profit

An organisation is non-profit for determining income tax exempt status if it is not carried on for the profit or gain of its individual members. This applies for direct and indirect gains, and both while the organisation is being carried on and when it is winding up. The Tax Office accepts an organisation as non-profit if its constitution or governing documents prohibit distribution of profits or gains to individual members and its actions are consistent with the prohibition.

Non-profit company

A non-profit company for determining rates of income tax and whether to lodge income tax returns is:

- a company that is not carried on for the purposes of profit or gain to its individual members and is, by the terms of the company's constituent document, prohibited from making any distribution, whether in money, property or otherwise, to its members, or
- a friendly society dispensary.

Pay as you go (PAYG) instalments

PAYG instalments is a system for paying amounts towards the expected tax liability on your business and investment income for the financial year.

Pay as you go (PAYG) withholding

PAYG withholding requires an entity to withhold an amount if it makes certain listed payments including salary, wages, commission, bonuses or allowances to an employee, directors' fees, payments for a supply (goods or services) to another business which does not quote an ABN, and certain dividend, interest and royalty payments.

Public benevolent institution (PBI)

A public benevolent institution (PBI) is a non-profit institution organised for the direct relief of poverty, sickness, suffering distress, misfortune, disability or helplessness.

The characteristics of a PBI are:

- it is set up for needs that require benevolent relief
- it relieves those needs by directly providing services to people suffering them
- it is carried on for the public benefit
- it is non-profit
- it is an institution, and
- its dominant purpose is providing benevolent relief.

Examples of PBIs are organisations that:

- provide hostel accommodation for the homeless
- treat sufferers of disease
- provide home help for the aged and the infirm
- transport the sick or disabled, or
- rescue people who are lost or stranded.

For more information on PBIs, refer to our publication *GiftPack for deductible gift recipients & donors* (NAT 3132).

Religious institution

A religious institution is a non-profit institution operated for the public benefit to advance religion in a direct and immediate sense. Religion involves belief in a supernatural being, thing or principle and the acceptance of canons of conduct which give effect to that belief. Examples of religious institutions include:

- bible colleges
- churches and other religious congregations
- institutions of missionaries, and
- seminaries.

Tax invoice

A tax invoice is a document generally issued by the seller. It shows the price of a sale, indicating whether it includes GST, and may show the amount of GST. It must show other information, including the Australian business number of the seller. You must have a tax invoice before you can claim a GST credit on your activity statement for purchases of more than \$50 (excluding GST).

Tax period

A tax period is the length of time for accounting for GST in your activity statement. It may be quarterly or monthly. Quarterly tax periods are periods of three months ending on 30 September, 31 December, 31 March and 30 June. Monthly tax periods end on the last day of each calendar month. An activity statement must be lodged for each tax period.

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MORE INFORMATION

PUBLICATIONS

To obtain copies of our publications:

- visit our website at www.ato.gov.au/nonprofit
- phone **1300 720 092** and quote the NAT number (which is a unique national identifying number we give each of our publications, for example, NAT 7966)
- write to us at **GPO Box 9935** in your capital city, or
- obtain a fax by phoning **13 28 60**.

More detailed information

Income tax guide for non-profit organisations (NAT 7967) is for all non-profit organisations. It explains:

- how to work out if your organisation is exempt from income tax
- the endorsement process for charities, and
- the income tax treatment of non-profit organisations that are not exempt.

GiftPack for deductible gift recipients & donors (NAT 3132) is for organisations that want to receive tax deductible gifts and donors that want to claim deductions for their gifts. It explains:

- who can receive tax deductible gifts
- the endorsement process for deductible gift recipients
- the types of gifts that are tax deductible, and
- what donors have to do to claim deductions for their gifts.

Non-profit organisations and fundraising (NAT 13095).

This guide:

- explains the tax treatment of various fundraising activities and the concessions available, and
- provides information on state, territory and local government requirements in relation to fundraising.

Volunteers and tax (NAT 4612) is for volunteers and organisations that deal with volunteers. It explains the tax treatment of transactions that commonly occur between non-profit organisations and their volunteers.

Other guides are available with detailed information on goods and services tax, PAYG withholding, fringe benefits tax, superannuation, capital gains tax, activity statements and record keeping.

We also have a range of fact sheets on specific topics written especially for non-profit organisations.

Technical information

If you are looking for technical information such as rulings, practice statements and tax laws, you can find them on our website.

SERVICES

Internet

Our website includes an area specifically for non-profit organisations. The Non-profit organisations home page at www.ato.gov.au/nonprofit links you to information about:

- taxes relevant to non-profit organisations, including income tax, fringe benefits tax, goods and services tax, and pay as you go
- exemptions or concessions that may apply, and
- other issues, such as fundraising, record keeping, volunteers and deductible gifts.

Email update service

Use the **subscribe** link on our home page to subscribe to the Non-profit organisations webspace and receive free email updates when information is updated or added, including articles from the **Non-profit news service**. This will keep you up to date on key tax issues affecting the non-profit sector, new publications we release for non-profit organisations, and changes to tax law.

Fax

Our fax service gives non-profit organisations access to tax information 24-hours-a-day, seven-days-a-week. Phone **13 28 60** and follow the instructions to order the list of available documents or particular publications from the list.

Speakers and seminars

Subject to availability, we have experienced tax officers who can deliver a variety of informative, personalised and practical tax presentations and workshops to groups of 15 or more people. To discuss requirements for your meeting, seminar or function phone **1300 130 282** or email speakersandseminars@ato.gov.au

Phone

Phone our information line on **1300 130 248** for help with matters specific to non-profit organisations including the endorsement process for charities and deductible gift recipients, income tax, GST and fringe benefits tax concessions.

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

