

# AUSTRALIAN BUSINESS NUMBER ISSUES AND THE GST

The Australian Business Number registration system is a significant tax reform initiative in its own right. While obtaining an ABN is a prerequisite to participate in the new GST system, businesses need to have an ABN from 1 July 2000 for a number of non-GST related reasons.

## Small businesses and the non-ABN the withholding tax problem

The Pay As You Go System has been described as replacing the existing Pay as You Earn, the Prescribed Payments, and the Reportable Payments Systems. However, the Pay As You Go System is a much broader tax withholding system than the three current systems.

As from 1 July 2000 a business that pays money to a supplier that does not supply an Australian Business Number is required to withhold 48.5% (top personal marginal tax rate, plus medicare levy) of the payment and remit this to the Australian Taxation Office.

For businesses that are registered for GST purposes, moneys withheld from non-ABN registered suppliers are to be remitted to the ATO when the business lodges its Business Activity Statement for the GST accounting period in which the withholding occurred.

This means that businesses that are choosing not to register for GST purposes because their turnover is below the compulsory GST-registration threshold need to obtain an Australian Business Number or face substantial withholdings from their business customers. This highlights the difference between registering for an Australian Business Number, and registering for the GST.

Businesses with annual turnover below the \$50,000 compulsory GST-registration threshold may choose not to register for GST purposes. But more than likely they should apply for an Australian Business Number for Pay As You Go purposes.

## Other reasons for obtaining an ABN

Companies that pay company tax instalments, and employers that withhold PAYE/PAYG instalments from employees salaries, and employers that pay fringe benefits tax will all require an ABN from 1 July 2000 in order to pay these tax obligations.

## Special GST credit for wholesale sales tax paid on stock

Special GST transitional rules apply to businesses that have stock on hand as at 1 July 2000 on which wholesale sales tax has been paid are entitled to claim a special credit for GST purposes equal to the amount of sales tax that has been borne in respect of the goods.

In order to claim the special credit, the business must be registered for both ABN and GST purposes by 1 July 2000. The credit is claimed as a special input tax credit, and must be claimed in one GST return, lodged prior to 22 January 2001.

The ATO is likely to issue a ruling determining methods to work out the amount of sales tax embedded in the prices of specified goods, in cases where that amount is not readily ascertainable.

## Charitable and non-profit organisations

It seems that some charitable and non-profit organisations are unaware that as from 1 July 2000 they will need to be endorsed by the ATO to retain their income tax exempt status and maintain their status as deductible gift recipients.

The first step in the endorsement process is for the charity to obtain an Australian Business Number. The charity should indicate on its ABN Application Form that it is a charitable institution or a trustee of a charitable fund, and that it is or considers itself entitled to be a deductible gift recipient.

The ATO has also released 3 Charities Fact Sheets on the endorsement process for income tax exempt charities (Nat 3192), the endorsement process for deductible gift recipients (Nat 3193) and



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gift fund requirements for deductible gift recipients (Nat 3194). These publications are available from the ATO website: [www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au).

Registration for an Australian Business Number does not mean that the applicant must also register for the GST. If the applicant's turnover is below the \$100,000 turnover threshold for charitable and non-profit organisations, it may still choose not to register for GST purposes despite obtaining an Australian Business Number.

If the charity is not endorsed by 1 July 2000 it will lose its income tax exempt and/or deductible gift recipient charity status.

## How to register for an Australian Business Number

Four useful pieces of ATO information will assist you in learning the GST registration and payment process. These are available on-line from the ATO website ([www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)).

On-line registration is also possible, although businesses have experienced difficulties with this because of an over-crowding of businesses trying to register this way.

The ATO has applied additional resources to try to improve the process.

The relevant pieces of information are:

- ATO publication 'Recording and Reporting Business Activity' (issued February 22, 2000)
- Draft Business Activity Statement and instruction booklet (re-issued February 22, 2000)
- Australian Business Number registration booklets (available on-line or through Australia Post Offices)
- Draft Goods and Services Tax Ruling GSTR 1999/D10 – Goods and Services Tax – tax invoices (issued December 22, 1999).

### GST, legal fees and retainer arrangements

GST Fact Sheets on Legal Fees and Charges (Nat 3120) provides some useful information on how the ATO expects law firms to deal with the GST on legal fees and disbursements.

Legal practitioners should familiarise themselves with this Fact Sheet, and also with the information published by the ATO in its Industry Booklet – Business and Professional Services and the New Tax System. Both publications are available from the ATO website: [www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au).

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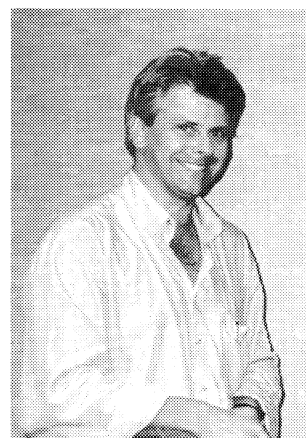
## GST PAPERS AVAILABLE

Papers from the GST seminars for legal practitioners held recently in Darwin and Alice Springs are available from the Law Society Northern Territory.

The seminars were presented by Melbourne lawyers Mr John Morgan, partner at Blake Dawson Waldron, and Mr James Johnson, Sutton and Johnson.

The four hour information sessions provided participants with an overview of the impact and implementation of the GST on legal practice.

Practitioners are advised that a *Guide to GST in a legal practice* publication produced by the GST Start Up Office in conjunction with the Law Society Northern Territory will be available in May.

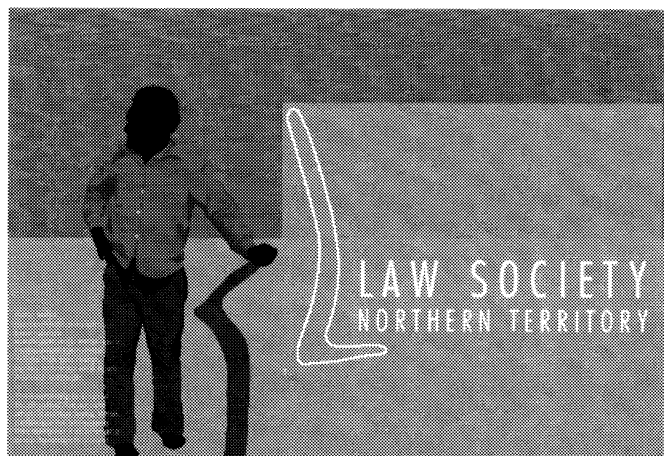


Mr John Morgan, Partner at Blake Dawson Waldron, Melbourne.



Alice Springs practitioners attended GST workshops on 17 & 18 March 2000

## PRINT FOR SALE



A limited edition print, featuring the Law Society's new corporate logo, is available for purchase for \$50.00.

The print was recently presented to the Chief Justice of Western Australia and Attorney General Denis Burke at the Opening of the Legal Year lunch in Darwin.

Only a limited number are available. Please contact the Law Society with your order on 8981 5104.