

Tax basics for non-profit organisations

A guide to tax issues affecting non-profit organisations including charities, clubs, societies and associations



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



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ABOUT THIS GUIDE


Tax basics for non-profit organisations is a guide to tax issues which may affect non-profit organisations, such as charities, clubs, societies and associations.

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


This guide:

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

Throughout this guide you will find important notes (look for the  and  symbols) which will help you with key information.

You will also find 'more information' boxes (look for the  symbol) which will show any further steps you may need to take or supplementary information you may need to refer to.

We often refer to quick codes (**QC**) and **NAT** numbers. A quick code is used to search for specific information on our website. NAT numbers can be used to order publications that are available in paper format.

 For more information about how to access our publications and services, see page 48.

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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
- traditional service clubs.

A non-profit organisation is an organisation that 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.

We accept 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 income tax law does not prescribe the words that a non-profit organisation must have in its constituent documents. The following example clauses would be acceptable, provided that other clauses do not contradict them. The organisation's actions must be consistent with this requirement.

EXAMPLE CLAUSES

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 this profit to reduce its debts and provide for its activities in the following year.

TAX CONCESSIONS – AN OVERVIEW

There is 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.

Table 1 on page 4 provides a summary of tax concessions and the types of non-profit organisations that can access them.

Table 1 groups non-profit organisations as follows:

- charities – public benevolent institutions, health promotion charities, charitable institutions and charitable funds
- income tax exempt funds
- 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 5.

There are also concessions for:

- public and non-profit hospitals and public ambulance services – see 'FBT exemption' on page 24
- religious institutions – see 'Religious institutions' on page 25 and 'GST concessions' for charities, gift deductible entities and government schools on pages 15–16
- non-profit companies and live-in residential care workers – see 'Non-profit companies and live-in residential carers' on page 26.

! It is important to check the notes to table 1, as your organisation may need to meet certain requirements before it can access a concession.

TABLE 1: Summary of tax concessions and types of non-profit organisations

Tax concessions	Types of non-profit organisations				
	Charities			Income tax exempt funds	Other non-profit organisations
	Public benevolent institutions and health promotion charities	Charitable institutions	Charitable funds		
Income tax exemption – see page 10	✓ ¹	✓ ¹	✓ ¹	✓ ¹	✓ Certain types only ²
FBT exemption (subject to capping threshold) – see page 24	✓ ¹				✓ Certain types only ³
FBT rebate – see page 25		✓ ¹			✓ Certain types only ⁴
GST concessions for charities and gift deductible entities – see page 15	✓ ¹	✓ ¹	✓ ¹	✓ ⁵	✓ Certain types only ⁵
GST concessions for non-profit organisations – see page 15	✓	✓	✓		✓
Deductible gift recipients – see page 30	✓ 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 TABLE 1

- 1 The organisation must be endorsed by us to access this concession – see ‘Endorsement requirements for charities and income tax exempt funds’ on page 8.
- 2 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 10.
- 3 Public and non-profit hospitals and public ambulance services are eligible for this concession – see ‘FBT exemption’ on page 24.
- 4 Certain non-government non-profit organisations are eligible for this concession – see ‘FBT rebate’ on page 25.
- 5 The organisation must be a deductible gift recipient to access this concession – see ‘Deductible gift recipients’ on page 30.
- 6 The organisation must be endorsed by us 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 tax law – see ‘Deductible gift recipients’ on page 30.
- 7 The organisation must be an entity that is endorsed by us as exempt from income tax or a deductible gift recipient to access this concession – see ‘Refunds of franking credits’ on page 12.

TYPES OF NON-PROFIT ORGANISATIONS

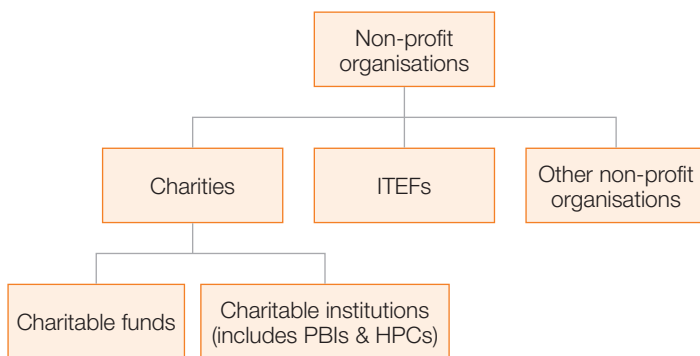
Concessions are available depending on the type of non-profit organisation. Non-profit organisation types fall within three broad categories:

- charities
- income tax exempt funds (ITEFs)
- other non-profit organisations.

Charities consist of charitable funds and charitable institutions. Charitable institutions include public benevolent institutions (PBIs) and health promotion charities (HPCs).

The following diagram shows the relationship between the types of non-profit organisations – note: the diagram does not represent the relative size or population of each type.

DIAGRAM 1: Types of non-profit organisations



Charities

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
- its sole purpose is charitable.

In brief, purposes are charitable if they are to benefit the community, or a section of it, through the following activities:

- **The relief of poverty, 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 cyclones, 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
 - 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
- government departments and instrumentalities carrying out the ordinary functions of government.

➤ For more information about charities, refer to *Is your organisation a charity?* (QC 34267).

Charitable funds

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

Charitable funds mainly do one or both of the following:

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

Charitable institutions

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 documents and from its activities, history and control.

A charitable institution may be an organisation established by a 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.

Charitable institutions include public benevolent institutions and health promotion charities.

Public benevolent institutions

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 all of the following:

- 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
- its dominant purpose is providing benevolent relief.

Some 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
- rescue people who are lost or stranded.

To be a PBI, your organisation must be a charity – see 'Charities' on page 5.

➤ For more information about PBIs, refer to *Is your organisation a public benevolent institution?* (QC 26553).

Health promotion charities

A health promotion charity (HPC) is a non-profit charitable institution whose main 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
- developing or providing relevant aids and equipment to sufferers of a disease.

To be a HPC, your organisation must be a charity – see 'Charities' on page 5.

➤ For more information about HPCs, refer to *Is your organisation a health promotion charity?* (QC 26552).

Income tax exempt funds

An income tax exempt fund (ITEF) is a non-charitable fund that is endorsed by us to be exempt from income tax.

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 either:

- the purpose of providing money, property or benefits to income tax exempt deductible gift recipients (DGRs)
- 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 about how to become an ITEF, refer to *The endorsement process for income tax exempt funds* (QC 62731).

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 an organisation that 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.

We accept 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 about non-profit organisations, refer to *Is your organisation non-profit?* (QC 33732).

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?

An 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 us for endorsement as a deductible gift recipient, tax concession charity or income tax exempt fund
- interact with other government departments, agencies and authorities
- interact with us on other taxes, such as FBT.

Your organisation's ABN registration details become part of the Australian Business Register. 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 one or more of the following:

- 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
- a superannuation fund.

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

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

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

⚠ Your organisation must have an ABN if it is seeking endorsement as one or more of the following:

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

How does your organisation apply for an ABN?

Your organisation can apply for an ABN in any of the following ways:

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

➤ For more information about ABNs, refer to:

- *Australian business number (ABN)* (QC 8782)
- *ABN registration* (QC 57752).

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 (excluding FBT), you will need to complete the form *Add a new business account* (NAT 2954). You can obtain this form by:

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

Your organisation can register for FBT using the *Application to register for fringe benefits tax* (QC 8352).

➤ 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 21 (for withholding from payments to employees) and page 34 (for withholding in business transactions)
- 'Fringe benefits tax' on page 22.

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 helps us identify your authorised contact people. It is important that the information we have 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. You need to 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 ATO can speak to my organisation's representative?* (NAT 7605).

! 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.

You will need to complete the form *Application to cancel registration* (NAT 2955) to cancel your organisation's registration for:

- ABN
- GST
- luxury car tax
- wine equalisation tax
- pay as you go withholding
- fuel tax credits.

➤ For more information about cancelling registration and to obtain the application form:

- phone **13 28 66**
- visit our website at **www.ato.gov.au**

ENDORSEMENT REQUIREMENTS FOR CHARITIES AND INCOME TAX EXEMPT FUNDS

Charities and income tax exempt funds must be endorsed by us to be exempt from income tax.

Charities also need to be endorsed if they want to access charity concessions under the GST and 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
- the date of effect for each endorsement.

Applying for endorsement

Before an organisation can apply for endorsement it must have an ABN.

If your organisation does not have an ABN, see 'How does your organisation apply for an ABN?' on page 7. 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), we 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 us on **1300 130 248**
- referring to the *Endorsement application packs* (QC 46645).

Using the form in the application pack you can apply to us 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:

- *Endorsement to access charity tax concessions* (QC 13267)
- *The endorsement process for income tax exempt funds* (QC 62731).

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 rebate equal to 48% of 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 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 DGR status – see 'Fundraising' on page 30.

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

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
- sporting organisations.

How do you work out if your organisation is exempt?

The following organisations must be endorsed by us to be exempt from income tax:

- charities
- income tax exempt funds.

➤ For more information see 'Charities' on page 5 and 'Income tax exempt funds' on page 6.

For more information about endorsement requirements, see 'Endorsement requirements for charities and income tax exempt funds' on page 8.

Other organisations can self-assess whether they are exempt from income tax, see 'Other non-profit organisations' on page 6.

Charities and income tax exempt funds

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

- charities – charities that are endorsed to access income tax exemption are referred to as tax concession charities (TCCs)
- income tax exempt funds (ITEFs).

If we notify you that your organisation is endorsed as exempt from income tax all of the following apply:

- it does not need to lodge income tax returns, unless specifically asked to do so
- it will need to regularly review whether it is entitled to endorsement
- it must tell us 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 us 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, all of the following applies:

- your organisation will not need to pay income tax, capital gains tax or lodge income tax returns, unless specifically asked to do so
- you do not need to get confirmation of this exemption from us
- you should carry out a yearly review to check if 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 the *Income tax guide for non-profit organisations* (NAT 7967).

If your non-profit organisation is not exempt from income tax, it is taxable.

➤ For more information see the following section, 'Taxable organisations'.

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 3.

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.

! To work out if your taxable organisation needs to lodge an annual income tax return, refer to *Mutuality and taxable income* (NAT 73436), which will help you calculate your organisation's taxable income, including how to treat mutual dealings with your members.

Capital gains tax

Capital gains tax (CGT) 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.

CGT 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 the *Guide to capital gains tax* (NAT 4151).

Some of the particular CGT 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
- the amalgamation of organisations
- the availability of CGT concessions, such as the small business concessions.

➤ For more information about CGT, refer to the 'Other tax issues' section in *Mutuality and taxable income* (NAT 73436).

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, we work out what your organisation's total tax liability is and credit its 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 needs 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 organisations 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 organisations 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.

CONSOLIDATION

Wholly-owned corporate groups may have the option of consolidating for income tax. Consolidation is optional but cannot be reversed. The consolidated group operates as a single entity for income tax purposes, lodging a single income tax return and 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
- certain credit unions.

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

- non-profit companies
- trusts that are complying and non-complying superannuation entities
- 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 about consolidation, refer to the *Consolidation reference manual* (QC 34764).

REFUNDS OF FRANKING CREDITS

Franking credits attached to franked dividends received by the following organisations may be refundable, provided the eligibility criteria are met:

- entities that are endorsed as exempt from income tax
- deductible gift recipients (DGRs)
- developing country relief funds
- exempt institutions that are eligible for a refund under a Commonwealth law other than the income tax law.

Franking credits arise for shareholders when certain Australian-resident 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 will be able to obtain a refund of those credits, if they would have been able to had the dividend been paid by an Australian company.


 New Zealand franking credits cannot be claimed.

If the New Zealand company that paid the dividend has not specified that the franking credit is Australian, you should contact the company to work out whether the franking credit is an Australian or New Zealand franking credit. In most cases, if it is not specified as Australian, it will be a New Zealand franking credit.

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

- be a charity endorsed by us to access income tax exemption
- be endorsed by us as an income tax exempt fund
- be endorsed by us as a DGR in its own right
- 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 about franking credits, refer to *Refund of franking credits – Endorsed income tax exempt entities and deductible gift recipients* (NAT 6716).

- What is goods and services tax? **page 13**
- Registering for GST **page 13**
- What does being registered for GST mean? **page 13**
- What if your organisation is not registered for GST? **page 14**
- How to cancel your GST registration **page 14**
- GST concessions **page 15**
- GST branches, groups and non-profit sub-entities **page 19**
- Grants and sponsorship **page 20**

! In this chapter when we say:

- **GST turnover**, we mean the turnover figure you use to work out if you need to be registered for GST
- **GST credit**, we mean the GST term **input tax credit**
- **payment** (made or received), we mean the GST term **consideration**
- **purchases**, we mean the GST term **acquisitions**
- **sales**, we mean the GST term **supplies**.

WHAT IS GOODS AND SERVICES TAX?

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.

REGISTERING FOR GST

If your non-profit organisation has a GST turnover of \$150,000 or more (or \$75,000 for organisations that are not non-profit), it must register for GST.

If your organisation has a GST turnover of less than \$150,000, 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 that registers for GST must then stay registered for at least 12 months, even if its GST turnover is less than \$150,000.

Calculating your organisation's GST turnover

An organisation's GST turnover is its gross income, excluding all of the following:

- GST included in sales
- input taxed sales
- sales not connected with an enterprise that your organisation carries on
- sales not connected with Australia.

If your organisation is not registered for GST, it will need to look at its GST turnover each month to make sure its GST turnover is not going to be \$150,000 or more. Your organisation's GST turnover is \$150,000 or more if either of the following applies:

- its turnover for the current month and the previous 11 months is \$150,000 or more – and we are not satisfied that its turnover for the current month and the next 11 months is likely to be less than \$150,000
- its turnover for the current month and the next 11 months is likely to be \$150,000 or more.

Generally, if your organisation's GST turnover is \$150,000 or more, it must register for GST within 21 days of the GST turnover meeting the \$150,000 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 *ABN registration for companies, partnerships, trusts and other organisations* (NAT 2939).

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

➤ For more information about registering for GST, see 'Registering your organisation' on page 7.

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' on page 14.

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' on page 14.

Being registered for GST means that your organisation:

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

➤ For more information about accounting for GST, see 'Record keeping, administration and payment' on page 33.

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

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:

- you make the sale for payment
- you make the sale as part of the organisation's activities
- the sale is connected with Australia
- the sale is 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 GST credits for the GST included in the price of purchases it uses 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
- some education, child care and health services
- some exports.

Your organisation can claim GST credits for the GST included in the price of purchases it uses 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
- financial transactions, such as providing a loan.

Your organisation cannot claim GST credits for the GST included in the price of purchases it uses to make an input taxed sale.

Collecting and claiming GST on different types of sales

It is important to understand which type of sales your organisation makes because this affects whether your organisation collects GST on the sale or if it can claim GST credits on the purchase – see the table below.

TABLE 2: Collecting and claiming GST on different types of sales

Type of sale	Do you collect GST?	Can you claim GST credits?
Taxable	Yes	Yes
GST-free	No	Yes
Input taxed	No	No

WHAT IF YOUR ORGANISATION IS NOT REGISTERED FOR GST?

If your organisation is not registered and is not required to be registered for GST, GST is not included in the price of its sales and it cannot claim GST credits for the GST included in the price of purchases it makes in carrying on its activities.

HOW TO CANCEL YOUR GST REGISTRATION

You may cancel your non-profit organisation's GST registration if your organisation meets all of the following requirements:

- has been registered for at least 12 months
- has a GST turnover of below \$150,000
- has applied for cancellation of the registration.

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

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

➤ For more information refer to *Leaving the GST system* (NAT 14829).

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

GST CONCESSIONS

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

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

For GST purposes, a 'gift deductible entity' is an entity that can receive tax-deductible gifts or contributions.


 It is important to check the notes to table 3, as your organisation may need to meet certain requirements before it can access a concession.

TABLE 3: Available GST concessions

GST concession	Eligible entity	Explanation of concession
Non-profit organisations		
Gifts – a gift to a non-profit organisation is not considered payment for a sale.	■ Non-profit organisation	See 'Gifts' on page 17.
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.	■ Non-profit organisation	See 'School tuck shops' on page 17.
GST registration threshold – the registration turnover threshold is higher for non-profit organisations than for other organisations.	■ Non-profit organisation	See 'GST registration threshold' on page 17.
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.	■ Non-profit organisation	See 'GST groups' on page 19.
Charities, gift deductible entities and government schools		
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 17.
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 17.
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 GST 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.

TABLE 3: Available GST concessions *continued*

GST concession	Eligible entity	Explanation of concession
Charities, gift deductible entities and government schools <i>continued</i>		
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 non-profit entity.	<ul style="list-style-type: none"> ■ Charitable institution¹ ■ Charitable fund¹ ■ Gift deductible entity⁴ 	See 'Gifts and GST credit adjustments' on page 18.
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 18.
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 19.
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 19.
Charitable retirement villages – an eligible non-profit 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.

NOTES TO TABLE 3**Endorsement requirements for charities**

1 If a charity wants to access this concession, it must be endorsed by us 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 8.

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, either:

- the entity's GST turnover does not exceed the cash accounting turnover threshold
- the entity correctly accounts for income using the receipts method for income tax purposes.

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.

➤ For more information about a GST concession, refer to the *Charities consultative committee resolved issues document* (QC 16250) unless directed to another publication.

Gifts

A gift made to a non-profit organisation is not considered payment for a sale and is not subject to GST. The value of a gift is also excluded when calculating the non-profit organisation's GST 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 *Fundraising* (NAT 13095).

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 GST 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 *Fundraising* (NAT 13095).

GST registration threshold

The GST registration threshold for a non-profit organisation is \$150,000. This means your non-profit organisation is not required to be registered for GST unless the GST turnover of your organisation is \$150,000 or more.

You may still choose to register your organisation for GST if its GST turnover is less than \$150,000. The decision to voluntarily register for GST is one that should 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.

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 purchases for 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 GST 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 GST turnover is less than \$150,000.

⚠ There are certain conditions that must be met in order to apply this concession. For more information refer to *Fundraising* (NAT 13095).

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 purchases it uses 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 either of the following:

- less than 50% of the GST-inclusive market value
- less than 75% of the amount the charitable institution, charitable fund, gift deductible entity or government school paid to purchase the item that is 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 either of the following:

- less than 75% of the GST-inclusive market value of the accommodation
- 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 of accounting.

Organisations may choose to account for GST on a cash basis if their GST 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 regardless 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 *Cash and non cash accounting* (NAT 3136).

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 organisation, the organisation can claim a GST credit for the GST included in the price of the item purchased if the organisation is registered for GST.

A payment is a reimbursement where the recipient is compensated exactly (meaning precisely, not 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 for the purchase they have made.

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

Gifts and GST credit adjustments

Generally, an organisation can claim GST credits on 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 us 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 *Fundraising* (NAT 13095).

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, which GST-free treatment applies to, includes the supply of accommodation in the retirement village, and 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, 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 on 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 goods and services 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 a GST or PAYG withholding branch* (NAT 14834).

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* (QC 13189).
To register a GST group complete the *GST group – notification of forming, changing or cancelling* (NAT 2952) form.

GST religious groups

Charities that are endorsed by us to access income tax exemption and which 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 must be individually registered for GST and account for all its transactions with parties outside of 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 – see note 1 on page 16
- charitable funds – see note 1 on page 16
- gift deductible entities – see note 5 on page 16
- government schools
- other non-profit organisations that are income tax exempt.

To be able to use this option, the main organisation must be registered for GST and 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
- can be separately identified from the main organisation by its location or by its activities.

For example, a unit could be 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 GST turnover is less than \$150,000, the unit can choose whether or not it registers for GST. Where the unit has a GST turnover of \$150,000 or more, it must 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.

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 payments it receives.

 For more information about grants funding and sponsorship, refer to *Fundraising* (NAT 13095).

For more information about meeting your GST obligations, refer to *GST tips for non-profit organisations* (QC 00161180).

- Employees, independent contractors and volunteers **page 21**
- Pay as you go withholding **page 21**
- Fringe benefits tax **page 22**
- Salary sacrifice arrangements **page 26**
- Superannuation guarantee **page 26**
- Employment termination payments **page 27**
- Higher education debts **page 27**
- Employees and child support **page 28**
- Independent contractors and tax **page 28**
- Volunteers and tax **page 28**

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 meet the following requirements:

- are paid for time worked
- receive paid leave – for example, sick, annual, recreation or long service leave
- are not responsible for providing the materials or equipment needed 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
- 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 meets the following requirements:

- 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
- is in a position to make a profit or loss.

➤ For more information about determining if workers are employees or contractors, refer to *How to determine if workers are employees or independent contractors* (NAT 2780).

Meaning of volunteer

There is no legal definition of 'volunteer' for tax purposes. A dictionary definition 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 about the tax treatment of:
- independent contractors – see 'Independent contractors and tax' on page 28
 - volunteers – see 'Volunteers and tax' on page 28.

PAY AS YOU GO WITHHOLDING

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

You must register your organisation with us 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 either or both of the following:

- *Tax file number declaration* (NAT 3092)
- *Withholding declaration* (NAT 3093).

We publish tax tables that list the amounts to withhold from weekly, fortnightly and monthly pays.

If your organisation is a small organisation, you report and pay the withheld amounts to us quarterly when you lodge your organisation's activity statements.

You must also:

- give each employee an annual payment summary of the amount withheld from them during the year
- provide an annual report to us 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
- 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 currently 46.5% (the top marginal rate plus the Medicare levy) 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 us what rates apply to other payments.

A payment summary must also be 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 *Pay as you go withholding – what you need to know* (QC 16857).

The following publications are available from us by phoning **13 28 66** and are free from most newsagents:

- *Weekly tax table* (NAT 1005)
- *Fortnightly tax table* (NAT 1006)
- *Monthly tax table* (NAT 1007)
- *Withholding declaration* (NAT 3093)
- *Tax file number declaration* (NAT 3092).

To calculate tax rates electronically, use our *Tax withheld calculator* (QC 33268).

For more information about ‘no ABN quoted’ withholding, see ‘Withholding in business transactions’ on page 34.

Are any organisations exempt from PAYG withholding?

No. Withholding obligations are determined by the nature of the payments. 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 an electronic or printed 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 register for PAYG withholding:

- phone **13 28 66**
- refer to *Add a new business account* (NAT 2954).

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 you must report on your organisation’s activity statement.

You send these amounts to us quarterly or monthly, 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. However, certain FBT concessions 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 or wages. Benefits may 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
- 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 or wages, FBT can apply.

➤ For more information about FBT refer to:

- *Fringe benefits tax – a guide for employers* (QC 418)
- *Volunteers and tax* (NAT 4612).

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
- housing.

Common exempt benefits

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

- some taxi travel
- in-house health care facilities
- 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 to register for fringe benefits tax* (NAT 1055).

Your FBT number will be 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 the 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 us.

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 the Medicare levy, to purchase the benefit using 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 for 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 (type 2) 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 one or both of the following:

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

While the above employers must 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. However, it is included in a number of income tests for certain government benefits and obligations.

➤ For more information about reportable fringe benefits, refer to *Reportable fringe benefits* (QC 52011).

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. These sections cover:

- FBT exemption
- FBT rebate
- 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 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, your organisation will need to pay FBT on the excess.

Table 4 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 us to access FBT exemption.

TABLE 4: Types of organisations eligible for FBT exemption

Types of organisations eligible for FBT exemption ¹	Capping threshold ²	Does the organisation need to be endorsed by us to access FBT exemption? ³
Public benevolent institutions (other than hospitals) – see page 6 for an explanation of a ‘Public benevolent institution’	\$30,000 per employee	Yes
Health promotion charities – see page 6 for an explanation of a ‘Health promotion charity’	\$30,000 per employee	Yes
Public and non-profit hospitals	\$17,000 per employee	No
Public ambulance services	\$17,000 per employee	No

NOTES TO TABLE 4

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’ on page 25.

2 The \$30,000 capping threshold applies even if the public benevolent institution (PBI) or health promotion charity did not employ the employee for the full FBT year. For example, if you employed the employee between October and March and the total grossed-up value of benefits provided was \$25,000, FBT will not be payable.

If an organisation is a 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 8.

⚠ It is important to check the notes to table 4, as your organisation may need to meet certain requirements before it can access a concession.

FBT rebate

The 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 'rebatable employers'.

Rebatable 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. The \$30,000 capping threshold applies even if the rebatable employer did not employ the employee for the full FBT year. For example, if the total grossed-up value of benefits provided to an employee between October and March was \$15,000, a rebate applies to all of the FBT payable for providing these benefits.

Charities must be endorsed by us to access the FBT rebate.

➤ For more information see 'Endorsement requirements for charities and income tax exempt funds' on page 8.

Other non-profit organisations can self-assess their entitlement.

Rebatable 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
- 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 us 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' on this page.

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

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

Religious institutions and religious practitioners

Subject to certain requirements, benefits provided by religious institutions to religious practitioners are FBT exempt if they are mainly for the practitioners' pastoral duties, or other duties related 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 from FBT.

The exemption is for 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 employees are FBT exempt in certain circumstances.

For a live-in employee, the employee's duties must mainly 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 mainly 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 FBT 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' on page 25.

For an organisation to be a non-profit company, it must meet both of the following requirements:

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

➤ For more information about FBT and how it applies to non-profit organisations, refer to *Non-profit organisations and fringe benefits tax* (QC 52013).

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, where 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 wage 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, all of the following apply:

- 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 super contributions – not employee contributions – this means they are taxed in the super fund under tax laws dealing specifically with this subject
- the employer may be required to report certain benefits on the employees' payment summary.

➤ For more information about:

- making a donation through a salary sacrifice arrangement, see 'Salary sacrifice and gifts' on page 32
- salary sacrifice arrangements, refer to *Salary sacrifice arrangements for employees* (QC 24632).

SUPERANNUATION GUARANTEE

Superannuation guarantee

As an employer you must provide a minimum level of super support for your eligible employees – currently 9% of an employee's ordinary time earnings – or lodge a *Superannuation guarantee charge statement – quarterly* (NAT 9599) 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 super 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 (super does not have to be provided for 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 for no more than 30 hours per week.

➤ For a full list of super exemptions, refer to the *Guide to superannuation for employers* (QC 00249857).

⊖ In the 2010–11 Federal Budget, the government announced future changes to super. If these changes are passed by parliament, they will change the information in this section. For a summary of the changes, refer to *Changes to super* (QC 00200258).

Which 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 does your organisation need to pay?

The minimum amount of super support you must provide for your employees is 9% of each employee's ordinary time earnings – as defined in the superannuation guarantee law.

Any existing super 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 super fund or retirement savings account. The table below shows the quarterly due dates.

Super guarantee charge

If you don't pay the minimum level of super support for your employees by the quarterly cut-off date, you must lodge a *Superannuation guarantee charge statement – quarterly* (NAT 9599) and pay the SGC to us. 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 super contributions for your eligible employees by the relevant due dates, those contributions are generally tax deductible. However, the SGC is not tax deductible.

Late employer contributions made to a super fund or retirement savings account (RSA) may be able to be used to offset part of the shortfall and nominal interest components of the SGC if the employer makes an election and meets certain eligibility criteria. 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 SGC to us.

TABLE 5: Super quarters and due dates

Superannuation guarantee quarter	Due date for payment of super contributions	Due date for lodgment of statement and payment of SGC
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

Choice of super fund

You must offer eligible employees a choice of super fund. To do this, provide each new eligible employee with the *Standard choice form* found in *Choosing a super fund* (NAT 13080) within 28 days of their start date so they can nominate a fund for their super contributions. You should already have done this for existing employees.

- For more information about your super responsibilities:
 - visit our website at www.ato.gov.au/super
 - phone us on **13 10 20**
 - refer to
 - *Guide to superannuation for employers* (QC 00249857)
 - *Choice of super fund – meeting your obligations* (QC 00108082)
 - *Choosing a super fund* (NAT 13080).

EMPLOYMENT TERMINATION PAYMENTS

Employment termination payments (ETPs) are specific payments made to an employee when they stop working for you. ETPs are subject to concessional tax treatment depending on the employee's age and length of employment.

- For more information refer to:
 - *Employment termination payments – when an employee leaves* (QC 00148700)
 - *Employment termination payments* (QC 00094527).

HIGHER EDUCATION DEBTS

Higher Education Loan Program (HELP)

On 1 January 2005, a new suite of loans known as the Higher Education Loan Program replaced HECS. All accumulated HECS debts are now known as accumulated HELP debts.

If any of your employees or other payees has an accumulated 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 us.

- For more information refer to *HELP information for payers* (QC 12115).

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.

➤ For more information about the Child Support Scheme, contact the Child Support Agency (CSA) by:

- phoning the CSA enquiry line **131 272**
- visiting the 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 about CSAonline, view the CSA website or phone their employer helpdesk on **1800 637 445**.

INDEPENDENT CONTRACTORS AND TAX

Under the PAYG system, independent contractors can provide for their own income tax liability by entering 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 us. 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 our *Voluntary agreement for PAYG withholding (NAT 2772)* form. It is not compulsory to use this form. You can make your own written agreement as long as it includes all the information requested in the form.

➤ For more information refer to *PAYG withholding – voluntary agreements (NAT 3063)*.

Labour hire arrangements

Labour hire arrangements commonly involve at least two contracts. A user of labour (the client) typically contracts a labour hire firm to provide a specified kind of labour. 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 withholding and labour hire firms (QC 16691)*.

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
- 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 purchases made for its volunteers.

Reimbursements to volunteers

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

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

- Deductible gift recipients **page 30**
- Tax-deductible gifts **page 30**
- Tax-deductible contributions **page 31**
- Workplace giving programs **page 31**
- Salary sacrifice and gifts **page 32**
- GST **page 32**
- State/territory and local government regulations **page 32**


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 DGR?


The income tax law determines which organisations and types of organisations can qualify as DGRs. DGRs are either endorsed by us or listed by name in the income tax law.

All DGRs (except those listed by name) must be endorsed by us. 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.abr.gov.au
 - phoning us on **13 28 61**.

DGRs listed by name

DGRs listed by name in the income tax law include organisations such as the Australian Sports Foundation and Amnesty International Australia. For an organisation to become a DGR listed by name, parliament must amend the income tax law to list the organisation by name in tax law.

-  For more information refer to the 'DGRs listed by name' chapter in *GiftPack* (NAT 3132).

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
- 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
- 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 meet all of the following requirements:


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

Organisations that meet the requirements for endorsement can apply to us using an *Application for endorsement as a deductible gift recipient* (NAT 2948).

Maintaining DGR status

To maintain their endorsed status, most DGRs will need to do all of the following:

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

-  For more information refer to the 'Endorsed DGRs' chapter in *GiftPack* (NAT 3132).

TAX-DEDUCTIBLE GIFTS

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.

For a donor to claim a tax deduction for a gift, the payment must be all of the following:

- truly a gift
- made to a DGR
- a gift of money or a certain type of property
- compliant with any relevant gift conditions.

What is a gift?

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

- there is a transfer of money or property
- the transfer is made voluntarily
- the transfer arises by way of benefaction
- 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
- 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 either 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
- 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 if claims are checked by us.

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

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

➤ For more information refer to the 'Donors and gifts' chapter in *GiftPack* (NAT 3132).

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 as part of DGR fundraising events – such as fetes, balls, gala shows, dinners and charity auctions – may be tax deductible.

To be deductible, a contribution must meet all of the following 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 \$150 – 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 \$150 or 20% of the value of the contribution
- the contribution must satisfy any gift conditions relating to the DGR as though it was a gift
- the contribution must be made by an individual.

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 *Fundraising* (NAT 13095).

WORKPLACE GIVING PROGRAMS

Organisations/businesses may collect gifts on behalf of DGRs through workplace giving programs. Workplace giving programs are arrangements where all of the following apply:

- 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
- 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 about workplace giving, refer to *How to set up a workplace giving program* (QC 34483).

SALARY SACRIFICE AND GIFTS

Employees may also arrange for gifts to be made to DGRs through their employer under salary sacrifice arrangements.

In this situation, all of the following apply:

- the employee agrees with their employer that a certain amount of their pre-tax pay will be paid to a DGR
- the employee pays income tax on the reduced salary or wages
- the employer claims the tax deduction for the payment to the DGR, not the employee
- from 1 April 2008, the payment to the DGR is not a fringe benefit.

For a salary sacrifice arrangement to be effective, the agreement between the employer and employee must be entered into before the employee becomes entitled to be paid the amount forgone as salary or wages.

The PAYG withholding amount should be based on gross salary or wages paid and should not include salary sacrificed amounts. The employee's PAYG payment summary should show the gross amounts of all salary or wages (excluding salary sacrificed amounts) and the relevant total amount of PAYG withheld for the year.

➤ For more information about salary sacrifice arrangements, see 'Salary sacrifice arrangements' on page 26.

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 does one of the following:

- raises the funds by selling donated second-hand goods
- raises the funds by holding a raffle or game of bingo
- chooses to have the fundraising activity treated as a non-profit sub-entity (see page 19)
- 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 about GST concessions available to non-profit organisations, see 'Goods and services tax' on page 13.

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 *Fundraising* (NAT 13095).

- Record keeping **page 33**
- Bank accounts and tax file number requirements **page 33**
- Proving eligibility for supplier discounts **page 34**
- Withholding in business transactions **page 34**
- Reporting and paying tax **page 36**
- Budgeting to pay tax **page 39**

RECORD KEEPING

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

Basic records you may need to keep

Some of the basic records you may need to maintain are:

- cash book records of daily receipts and payments
- 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 pay as you go (PAYG) withholding, superannuation and fringe benefits provided
- records of payments withheld from suppliers who do not quote an Australian business number (ABN)
- bank reconciliation statements
- records to enable your fringe benefits tax (FBT) liability to be assessed.

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

Record keeping requirements for DGRs

In addition to the basic record keeping requirements, DGRs must keep adequate accounting and other records that record and explain all transactions that are relevant to their status as a DGR. These records must also show that all gifts, deductible contributions and any money received in respect of such gifts and contributions are only used for the principal purpose of your fund, authority or institution. You must maintain these records for at least five years after the completion of the transactions or acts to which they relate. The penalty for not keeping proper records is twenty penalty units, currently \$2,200 (20 × \$110 per penalty unit).

➤ For more information about record keeping requirements, refer to *GiftPack* (NAT 3132).

Invoices you receive

A tax invoice of more than \$75 (excluding GST) must contain enough information to allow key information to be clearly determined, for example, your supplier's ABN. Otherwise, you generally need to withhold 46.5% from your payment to the supplier.

⚠ If you receive a document from a supplier that is missing key information, you may still be able to treat the document as a tax invoice if the document makes clear that it is intended as a tax invoice and the missing information can be obtained from other documents issued by 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 \$75 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 of your request. Organisations that are not registered for GST cannot issue tax invoices.

➤ For more information about tax invoices, refer to *Changes to tax invoices and recipient created tax invoices – overview* (QC 00247394).

BANK ACCOUNTS AND TAX FILE NUMBER REQUIREMENTS

If your organisation has savings accounts or investments, you may need to quote your organisation's tax file number (TFN) or ABN to an investment body – such as a bank, building society, unit trust or public company. This helps ensure your organisation pays the correct amount of tax on income it receives 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?

Your organisation will have tax withheld from its interest and other investment income at the rate of 46.5% if your organisation chooses not to either:

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

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. Your organisation's return must show the TFN amounts that were withheld, and we will credit the total amount on your organisation's assessment notice.

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

➤ For more information about TFN amounts, refer to *Tax file number withholding on accounts and investments held by non-profit organisations* (QC 18673).

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 (PBI) or other type of non-profit organisation.

Under the tax law, certain non-profit organisations may receive the following written notices from us:

- endorsement as a tax concession charity (TCC) or income tax exempt fund (ITEF)
- endorsement as a deductible gift recipient (DGR).

Endorsement notices

TCC and ITEF endorsement notices confirm an organisation has been endorsed to access tax concessions (for example, income tax exemption). Details on these notices include the organisation's entity type (for example, PBI). Clubs, societies and associations that can self-assess their entitlement to tax concessions (for example, income tax exemption) do not receive a notice of endorsement as a TCC or ITEF.

DGR endorsement notices confirm an organisation has been endorsed to receive tax-deductible gifts. Details on these notices include the DGR category under which the organisation is endorsed (for example, PBI). DGRs that are listed by name in the tax law do not need to be endorsed by us and do not receive a DGR endorsement notice.

If an organisation has been endorsed by us, the Australian Business Register website at www.abn.business.gov.au provides publically available information on its endorsements.

Other documentation

Organisations that do not receive an endorsement notice from us should contact their suppliers to find out what documentation they need to give them in order to get a discount. Other indicators of an organisation's non-profit status or particular community purposes include the organisation's constitution or governing rules.

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

WITHHOLDING IN BUSINESS TRANSACTIONS

Any business or organisation carrying on an enterprise should quote their ABN when supplying goods or services to another enterprise.

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

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 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 any of the following:

- 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
- a voluntary withholding agreement.

Suppliers carrying on an enterprise

A supplier should quote their ABN 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
- most other things in the nature of trade.

But enterprise does not include an activity carried on either:

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

Supplies excluded from the ABN rule

Your organisation should not withhold if any of the following applies:

- the total payment to the supplier is \$75 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
- 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 are not sure whether a supply is input taxed.

Also, your organisation should not withhold if it is satisfied that any of the following applies:

- 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
- the supplier is not an enterprise because they have no reasonable expectation of profit or gain.

If you are 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 use the *Statement by a supplier (reason for not quoting an ABN to an enterprise)* (NAT 3346) for this.

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*.

Withholding from a 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 using the Australian Business Register:

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


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

➤ If you are not registered for PAYG, phone us on **13 28 66**.


If your organisation withholds from a payment, complete a *PAYG payment summary – withholding where ABN not quoted* (NAT 3283) 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.

⚠ WHAT IF THE SUPPLIER HAS APPLIED FOR AN ABN?

Before you withhold from a payment, you could offer to delay 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 must not make full payment to the supplier on the understanding that an ABN will be quoted later. If you do, you may be subject to penalties for the amount you did not withhold.

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 register for PAYG withholding at any time.

 To register for PAYG withholding, complete one of the following forms:

- *Add a new business account* (NAT 2954) – if your organisation has an ABN
- *Application to register a PAYG withholding account* (NAT 3377) – if your organisation is not required to have an ABN.

You need to add together any amounts your organisation has withheld for PAYG withholding purposes and send the total to us with your organisation's 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 tax invoices you provide them so they can claim GST credits for the GST included in the price of goods and services your organisation supplied.

REPORTING AND PAYING TAX

Activity statements

Many business taxes are completed on a single form called an activity statement. Your organisation would use an activity statement to report and pay their 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 sections already filled in to save you 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 your organisation's activity statement.

You should use an activity statement at the end of each reporting period (month, quarter or year) if your organisation has any PAYG, FBT instalments or GST and related tax obligations, even if the amount to report for that period is nil.

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 your obligations.

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

TABLE 6: Quarterly activity statements


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

If a tax agent prepares and lodges quarters one, three or four, or you lodge via an approved secure electronic method, then a later lodgment 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, a 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 you had to pay FBT of \$3,000 or more in the previous year, you pay FBT quarterly with your activity statement. This applies even if you estimate that you will pay less than \$3,000 FBT in the current year.

 If your activity statement 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, phone us on **13 28 66** to discuss.

➤ For more information about activity statements, refer to the *Guide to activity statements* (QC 00182753).

Completing your activity statements online

The easiest way for non-profit organisations to complete their activity statements is through the Business Portal. You can lodge and revise most types of activity statements through the Business Portal and receive instant confirmation by receipt that your activity statement has been lodged. You can also view, print and list previously lodged statements.

Once you lodge your activity statement online, we will no longer post activity statements to you. All future activity statements can be accessed via the Business Portal. You will receive email notification that your activity statement is available to access and complete online.

➤ For more information about completing activity statements online, refer to *Lodge your activity statements online* (QC 36030).

Annual GST return

Your organisation can elect to report and pay its GST annually if both of the following applies:

- it is not required to register for GST
- it has not elected to pay GST by instalment amounts as advised by us.

However, your organisation will not be eligible to report and pay GST annually if the only reason that your organisation is not required to be registered for GST is because it disregards certain offshore supplies of rights or options in working out its GST turnover.

Your organisation can make this election in any financial year:

- from 1 July to 21 August, if it reports monthly
- from 1 July to 28 October, if it reports quarterly.

If your organisation elects to report and pay its GST annually, we will send your organisation an annual GST return in July each year. In your first year of annual reporting the return will be for the period from the date the election took effect until 30 June.

An annual GST return and payment are due at the same time as an 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.

➤ For more information about annual GST returns, refer to:

- *Completing your annual GST return* (NAT 13075)
- *Report your GST once a year* (NAT 12906).

Fringe benefit tax 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 the 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 must 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 FBT 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 us.

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

➤ For more information about:

- grossing up, see ‘What is grossing up?’ on page 23
- lodging an FBT return and paying FBT, refer to *Fringe benefits tax – return lodgment and payment* (QC 00188938).

PAYG withholding

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 must 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.

Annual income tax returns

Exempt non-profit organisations

If your non-profit organisation is exempt from income tax, it does not need to lodge an income tax return unless we specifically ask it to.

Taxable non-profit organisations

If your non-profit organisation is taxable (that is, not exempt from income tax), it may have to lodge an income tax return using the company tax return.

For income tax purposes, taxable non-profit organisations are treated as either non-profit companies or other taxable companies. This distinction is important because non-profit companies have special arrangements for lodging tax returns and special rates of income tax.

A non-profit company that is an Australian resident with a taxable income over the taxable threshold of \$416 per year must lodge a company tax return.

Other taxable companies are taxed on every dollar of taxable income. They must lodge an income tax return each year, regardless of their taxable income.

Therefore, to work out whether your organisation needs to lodge a company tax return, you need to do all of the following:

- determine if your organisation is a non-profit company or other taxable company
- know your organisation's taxable threshold for lodgment
- calculate your organisation's taxable income.

➤ For more information about:

- working out if your organisation is exempt from income tax, see 'Income tax exemption' on page 10
- how to complete the company income tax return, refer to the *Guide to company tax return for non-profit organisations* (NAT 73512).

Payment options

We offer several different payment methods.

Electronic payment is our preferred method for receiving payments. Tax payments can be made electronically by BPAY®, credit card, direct credit or direct debit. Payments 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 ATO biller code (**75556**) and use your electronic funds transfer (EFT) code or payment reference number (PRN) as the customer reference number.

® Registered to BPAY Pty Ltd ABN 69 079 137 518

Credit card

To make a credit card payment using the Government EasyPay website or telephone service you will need:

- a current Visa, MasterCard or American Express card
- your ATO EFT code or PRN.

A credit card payment fee applies to transactions made using this service.

➤ To proceed with your payment, go to Government EasyPay at www.optusmartpay.com/governmenteasypay-ato or phone **1300 898 089**.

Direct credit

You can electronically transfer funds to the ATO's direct credit bank account using online banking facilities. Use BSB **093 003**, Account number **316 385** and record your EFT code or PRN 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.

A direct debit request can be organised over the phone by calling **13 11 42**.

Only clients calling in-person are authorised to give verbal authority for their account. Tax agents or other authorised representatives cannot give verbal authority on behalf of their client, partner or spouse. However, they can request a *Direct debit request* (NAT 2284) form for the client to complete and return to us.

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**, mail to:

Australia Taxation Office
Locked Bag 1936
ALBURY NSW 1936

If you live in **NSW, ACT** or **QLD**, mail 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 preprinted 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, credit card, mail and post office payments, phone **1800 815 886** or send an email to payment@ato.gov.au
- direct debit payments, phone **13 11 42** or send an email to eft-information@ato.gov.au

⚠ Payments **cannot** be made in person at any ATO site or shopfront.

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**.

➤ For more information about the different payment methods, refer to *How to pay* (QC 33696).

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 expected.

The following suggestions can 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 software:** There are a number of commercially available products to help you budget for your tax. 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 us a cheque through the mail.

- Stamp duty **page 40**
- Payroll tax **page 40**
- Land tax **page 40**
- Contact details **page 41**

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

- stamp duty (or duty in the Australian Capital Territory, New South Wales, Queensland, Tasmania, Victoria and Western Australia)
- payroll tax
- land tax.

⚠ As the requirements for these taxes and duties vary between states and territories, organisations should seek clarification from their local state/territory revenue office – contact details are provided on page 41. Enquiries about state and territory taxes should not be directed to the ATO.

➤ FUNDRAISING REQUIREMENTS

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

For more information about fundraising requirements, see ‘State/territory and local government regulations’ on page 32.

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:

- The Australian Capital Territory (ACT) does not levy duty on mortgages, hiring duty, leases and marketable securities.
- New South Wales (NSW) does not levy duty on leases, home loans to natural persons and the hire of goods.
- The Northern Territory does not levy stamp duty on mortgages, marketable securities and the grant and renewal of a lease.
- 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 mortgages, leases, listed securities and the hire of goods.
- Tasmania does not levy duty on unlisted securities, leases and the hire of goods.

- Victoria does not levy duty on unlisted securities, certain leases and mortgages.
- Western Australia does not levy duty on marketable securities and leases.

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/territories.

Payroll tax should not be confused with the pay as you go (PAYG) withholding system. Payroll tax is payable to the state/territory by an employer, based on the total wages paid to all employees. Wages include salary, allowances, superannuation contributions, fringe benefits, shares and options and certain contractor payments.

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

➤ For more information about PAYG withholding, see ‘Pay as you go withholding’ on page 21.

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.

LAND TAX

Land tax is imposed in all states and the ACT but not in the Northern Territory. It is a tax levied on landowners – except in the ACT where it is levied on lessees under a Crown lease (land tax applies in the ACT to all rateable commercial properties and any residential properties that are rented or owned by a trustee or a corporation).

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.

CONTACT DETAILS

Each state and territory has its own department responsible for the administration of their 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

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

Northern Territory

Authority: Territory Revenue Office
 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

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

South Australia

Authority: RevenueSA
 Internet: www.revenuesa.sa.gov.au
 Phone: (08) 8226 3750
 Fax: (08) 8226 3737
 Email: revenuesa@sa.gov.au
 Write: GPO Box 1353 ADELAIDE SA 5001

Tasmania

Authority: State Revenue Office
 Internet: www.sro.tas.gov.au/tax
 Phone: (03) 6233 8070 (within the 62 area) or
 1800 001 388 (outside the 62 area)
 Fax: (03) 6234 3357
 Email: taxhelp@treasury.tas.gov.au
 Write: GPO Box 1374 HOBART TAS 7001

Victoria

Authority: State Revenue Office Victoria
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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.

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 us 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
- societies that promote the fine arts.

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, or hold trust property to make distributions to other entities or people. 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.

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 from its governing documents and from its activities, history and control. A charitable institution will carry on charitable activities while a charitable fund mainly manages or holds trust property.

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, 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
- 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 us, unless they are listed by name in the income tax law.

There are two types of endorsement, either:

- where an organisation is endorsed as a DGR in its own right
- 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.

Endorsement

Endorsement is the process where organisations apply to us for approval to do either of the following:

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

Enterprise

An enterprise includes a business and other commercial activities. It does not include any of the following:

- private recreational pursuits and hobbies
- activities carried on as an employee, labour hire worker, director or office holder
- 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 this guide, 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 super fund.

Also, the trustee of a trust or super fund is considered to be an entity made up of the people who are trustees at the time. That entity is a different entity to a person acting in their personal capacity. When we refer to an entity of a particular kind (for example, trustee), we mean 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
- pays an employee's private health insurance costs.

Gift deductible entity

For GST purposes, an entity is a gift deductible entity if gifts or contributions made to it can be deductible under the income tax law.

Goods and services tax (GST)

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

Government school

A government school is a school run by the Australian Government or a state or territory government that provides preschool courses, full-time primary or secondary courses.

GST credits

A GST credit, also referred to as an input tax credit, is claimed on an activity statement to get back the GST paid in the price of purchases made for your business or enterprise. You are entitled to a GST credit for the GST included in the price of purchases for use in your business or enterprise, but not to the extent that you use the purchase to make 'input taxed sales' or for private purposes.

If you use the purchase partly for private purposes, you will not be able to claim a credit for the full amount of GST, only the amount that relates to your business or enterprise use. You must have a tax invoice before you can claim a GST credit on your activity statement (except for purchases of \$75 or less excluding GST).

GST-free sales

Some things are not subject to GST and are sold without GST in their price. These sales are referred to as 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 purchases or importations you have made for use in carrying on your activities. Some examples of GST-free sales are basic food, exports, sewerage and water, the sale of a business as a going concern, non-commercial activities of charities and some education and health services.

Health promotion charity (HPC)

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

- its principal activity is promoting the prevention or control of diseases in human beings
- 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
- developing or providing relevant aids and equipment to sufferers of a disease.

Income tax exempt fund (ITEF)

An ITEF is a non-charitable fund established by a will or instrument of trust. The beneficiaries of ITEFs can include DGRs that are charities and DGRs that are not charities.

Input taxed sales

Some things are sold without GST in their price, even though GST was included in the price of purchases used to make or supply them. These sales are referred to as input taxed sales.

If you make input taxed sales you cannot claim GST credits for the GST in the price of purchases used to make the things you sold. In some cases you may be entitled to claim reduced GST credits. Some examples of input taxed supplies are 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 us 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 must pay PAYG instalments.

Non-profit

For determining income tax-exempt status, an organisation is considered non-profit 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. We accept 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 one of the following:

- 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
- a friendly society dispensary.

Pay as you go (PAYG) instalments

PAYG instalments are 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 that has not quoted 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 all of the following:

- 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
- its dominant purpose is providing benevolent relief.

Examples of PBIs are organisations that do one or more of the following activities:

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

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
- seminaries.

Tax concession charity (TCC)

A tax concession charity is a charity that is endorsed by us to access one or more of the following tax concessions:

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

Tax invoice

A tax invoice is a document generally issued by the seller in the approved form. It shows the price of a sale, indicating whether it includes GST, and may show the amount of GST. It must also contain sufficient information to enable the following key items to be readily identified:

- the seller's identity and Australian business number (ABN)
- the nature of the sale
- the amount of GST payable.

You must have a tax invoice before you can claim a GST credit on your activity statement for purchases of more than \$75 (excluding GST).

Tax period

A tax period is the length of time for accounting for GST in your activity statement. It may be quarterly, monthly or annually.

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.

Annual tax periods are the same as a financial year and end on 30 June. An activity statement must be lodged for each tax period.

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MORE INFORMATION

PUBLICATIONS

How to obtain our publications

For electronic products, use the quoted quick code (QC) to search our website at www.ato.gov.au

To obtain a copy of printed publications, use the NAT number and full title of the publication to order the paper product:

- online using our automated self-help publications ordering service
- by phoning our Publications Distribution Service on **1300 720 092** from 8.00am to 6.00pm Monday to Friday
- by visiting one of our shopfronts between 8.30am and 4.45pm weekdays
- by writing to us at

Australian Taxation Office
PO Box 9990
PENRITH NSW 2740

Our major non-profit publications

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 income tax exempt funds.

GiftPack (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
- what donors have to do to claim deductions for their gifts.

Mutuality and taxable income (NAT 73436) helps taxable non-profit organisations:

- work out if they need to lodge an income tax return
- calculate their taxable income, including how to treat mutual dealings with their members.

Guide to company tax return for non-profit organisations (NAT 73512) is for taxable non-profit clubs, societies and associations. It:

- helps these organisations complete the company tax return
- explains some common errors and their consequences when completing related labels.

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.

Fundraising (NAT 13095) is for all non-profit organisations. It:

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

Other guides are available with detailed information about GST, PAYG withholding, FBT, 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 at www.ato.gov.au

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 (FBT), goods and services tax (GST), and pay as you go (PAYG)
- exemptions or concessions that may apply
- 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 home page 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
- changes to tax law.

Education programs

Subject to availability, we have experienced tax officers who can deliver a variety of informative and practical tax presentations and workshops to 15 or more people. You can request one of our speakers for your meeting, seminar or function. Visit www.ato.gov.au/seminars and select 'Not-for-profit'. Alternatively, you can phone **1300 130 282** to discuss your requirements or send an email to speakersandseminars@ato.gov.au

Phone

Phone our information line on **1300 130 248** from 8.00am to 6.00pm Monday to Friday for help with matters specific to non-profit organisations, including the endorsement process for charities and deductible gift recipients, income tax, GST and FBT concessions.

If you do not speak English well and need help from the ATO, phone the Translating and Interpreting Service on **13 14 50**.

If you are deaf, or have a hearing or speech impairment, phone the ATO through the National Relay Service (NRS) on the numbers listed below:

- TTY users, phone **13 36 77** and ask for the ATO number you need
- Speak and Listen (speech-to-speech relay) users, phone **1300 555 727** and ask for the ATO number you need
- internet relay users, connect to the NRS on www.relayservice.com.au and ask for the ATO number you need.

Mail

Write to us at:

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PO Box 3000
PENRITH NSW 2740

