

## **Taxation Statistics 2010–11**

### **Industry benchmark table instructions**

**Note:** Industry benchmark tables are divided into two sets of ratios: **financial ratios**, sourced from income tax returns, and **activity statement ratios**, sourced from business and instalment activity statements.

The ATO also publishes a series of small business benchmarks which can be found on our website at [ato.gov.au](http://ato.gov.au).

- Step 1. Read the Industry benchmarks chapter of Taxation Statistics 2010–11 and the exclusion criteria explanatory notes below. These explain what the ratios are, what items were used to calculate them, how the ratios were calculated and how to properly interpret the ratios. The exclusion criteria notes are divided into two sections: financial ratios and activity statement ratios.**
  
- Step 2. To find ratios for a particular industry<sup>1</sup>, download the Tax Office publication *Business industry codes 2011 (NAT 1827-6.2011)*. By going through this document, you will have a better idea of which industry a business, service or activity will be classified under, and the industry code assigned to the business, service or activity.**
  
- Step 3. Once you know which industry codes you want, download the appropriate<sup>2</sup> detailed tables in your preferred format (Excel or PDF).**

**Note 1: Financial ratio tables** are shown for ANZSIC groups (denoted by a three digit code) and ANZSIC classes (denoted by a four digit code), not for every business activity (five digit code). The ratios pertinent to a specific business activity are those shown for the respective ANZSIC group. For example, the ratios applicable to 'trucks wholesaling' are those for the ANZSIC group '350 Motor vehicle wholesaling'. Ratios may not be available for all ANZSIC groups because: there was insufficient data; there were data quality problems or the data could not be shown for confidentiality reasons.

**Activity statement ratio tables** are shown for all business activities available. Ratios may not be available for all business activities because: there was insufficient data; there were data quality problems or the data could not be shown for confidentiality reasons.

**Note 2: Financial ratio tables** are shown according to business income, status and location and are available for businesses which are either individuals, companies, trusts or partnerships. Please read the list and descriptions of the tables available in *Taxation Statistics 2010-11*. For companies the income is 'total income', for individuals, partnerships and trusts it is 'total business income'. The classifications of status are 'commenced' and 'established'.

**Activity statement ratio tables** are shown according to level of sales and profitability, status and location. These are available for businesses which are either individuals, companies, trusts or partnerships. Please read the list and descriptions of the tables available in *Taxation Statistics 2010-11*. The classifications of status are 'commenced' and 'established'.

## Exclusion criteria and explanatory notes

### Financial ratios

#### Table notes:

\* 'n.a.' values indicate insufficient data to calculate a meaningful ratio.

\* A valid ratio is one where all the relevant input data from a taxpayer record met all the selection and exclusion criteria specified below for the respective ratio. Thus ratios were calculated only for those returns which fulfilled all the criteria.

The definitions most commonly used for gross profit and net profit are:

Gross profit = sales less cost of goods sold

However, 'sales' and 'cost of goods sold' are not labels that appear on every income tax return.

While the return forms are designed for statistical purposes, they were not designed with this particular task in mind. Therefore the definitions have been modified to enable calculation of these ratios.

The definitions used are:

\* Gross profit ratio = (total business income – cost of sales) / total business income

\* Net profit ratio = (total business income – total expenses) / total business income

For the wages to turnover ratio, the formula used is:

\* Wages to turnover ratio = salary and wages paid / total business income

The following table shows the actual tax return labels that were used to calculate the ratios.

Data item <sup>1</sup>	Entity type	Income tax return label <sup>2</sup>	Item no./label letter on tax return <sup>3</sup>
Total business income	individuals	Total business income	Item P8
	partnerships	Total business income	Item 5
	trusts	Total business income	Item 5
	companies	Total income	Item 6, label S
Cost of sales	individuals	Cost of sales	Item P8, (label K + label L)–label M
	partnerships	Cost of sales	Item 5, label E
	trusts	Cost of sales	Item 5, label E
	companies	Cost of sales	Item 6, label A
Total expenses	individuals	Total expenses	Item P8, (label S + label T)
	partnerships	Total expenses	Item 5, label O
	trusts	Total expenses	Item 5, label O
	companies	Total expenses	Item 6, label Q
Salary and wages paid	individuals	Total salary & wage expenses	Item P13, label G
	partnerships	Total salary & wage expenses	Item 44, label L
	trusts	Total salary & wage expenses	Item 44, label L
	companies	Total salary & wage expenses	Item 8, label D

1. The data used to calculate the ratios for the 2010–11 income year were sourced from 2011 individual, company, partnership or trust income tax returns processed by 31 October 2011.

2. The income tax labels (or items) are defined in the different parts of the *Taxation statistics 2010–11* glossary which is included in the online version of *Taxation statistics 2010–11* on the Tax Office website. It is also included on the *Taxation Statistics 2010–11* CD-ROM.

3. The items have specific item numbers and label letters on the 2011 individual, company, partnership and trust income tax return forms. Copies of the income tax returns may be viewed or downloaded from the online version of *Taxation Statistics 2010–11* on the Tax Office website or from the CD-ROM.

## Exclusion criteria and explanatory notes

### Financial ratios

#### Selection and exclusion criteria:

The selection criteria used to extract the data for these ratios are shown in the following tables. All data used to generate the benchmarks is for the income year ended 30 June 2011 for individuals, companies, partnerships and trusts.

Ratio	Data item	Criteria - all entities	Criteria - "profitable" entities
Net profit	Total business income Total expenses Net profit ratio	Greater than or equal to \$10,000 Greater than \$0 Between -100% and +100%	Greater than or equal to \$10,000 Greater than \$0 Greater than or equal to 0%
Gross profit	<i>As for net profit ratio</i> <i>PLUS:</i> Cost of sales Total expenses Sales of goods and services Gross profit ratio	Greater than \$0 Not equal to cost of sales Greater than or equal to \$0 Between -100% and +100%	Greater than \$0 Not equal to cost of sales Greater than or equal to \$0 Greater than or equal to 0%
Wages to turnover	<i>As for net profit ratio</i> Salary and wage expenses	Greater than or equal to \$20,000 Less than or equal to total expenses	Greater than or equal to \$20,000 Less than or equal to total expenses

## Exclusion criteria and explanatory notes

### Financial ratios

In any large population being analysed there will be cases which, if included, would tend to produce misleading results. For example, there will be cases where:

- income tax return labels have either not been filled in or not been used correctly; and
- the ratios for an individual entity are exceptional and would distort the calculation of a true industry average.

In an attempt to remove these cases from the calculation of the ratios and thereby improve the quality of the end product, certain exclusion criteria were developed. The exclusion criteria used and the reason for using them are detailed below.

Total expenses <= 0	It is expected that most businesses would have some expenses (eg. rent, motor vehicle, depreciation). These cases have therefore been excluded due to doubts about the quality of the data.
Net Profit < -100%	There were a small number of cases that had a net profit ratio less than -100%. These values are considered to be statistical 'outliers'. While it is accepted that they legitimately exist, they tend to unfairly skew the end result.
Cost of sales <= 0 (Gross profit ratio only)	While technically possible, very few cases actually have a cost of sales < 0. In these cases, the gross profit ratio would be greater than 100%. Cases with a cost of sales <= 0 were excluded as they are the exception rather than the rule. In industries where a cost of sales amount was expected to be shown, cases with a cost of sales = 0 were excluded because of doubts about data quality.
Gross profit < -100% (Gross profit ratio only)	A few cases that fell into this range were excluded for the same reason as the net profit less than -100% cases.
Total expenses = cost of sales (Gross profit ratio only)	In these cases, all business expenses have been included in the cost of sales figure. This is unlikely to be the actual situation. Businesses would normally have other expenses such as bad debts, rent, interest and motor vehicle expenses.
Sales of goods and services < 0 (Gross profit ratio only)	This label is only found on company income tax returns. Negative values have been found at this label despite there appearing to be no provision for this on the return. These cases have been excluded due to doubts about the quality of the data.
Salary and wages expenses < \$20,000 (Wages to turnover ratio only)	Entities with salary and wage expenses < \$20,000 are unlikely to have permanent full-time staff.
Salary and wages expenses > total expenses (Wages to turnover ratio only)	Salary and wages expenses is an "information label". The amounts shown in this field are not used in the calculation of taxable income. Cases with salary and wages expenses > total expenses were excluded due to doubts about data quality.

## Exclusion criteria and explanatory notes

### Activity statement ratios

#### Table notes:

\* 'n.a.' values indicate insufficient data to calculate a meaningful ratio.

\* A valid ratio is one where all the relevant input data from a taxpayer record met all the selection and exclusion criteria specified below for the respective ratio. Thus ratios were calculated only for those returns which fulfilled all the criteria.

The definitions used for wages to sales, expenses to sales and net GST to sales are:

- \* Wages to sales = Total salary, wages and other payments divided by total sales
- \* Expenses to sales = non-capital purchases and total salary, wages and other payments divided by total sales
- \* Net GST to sales = GST on sales - GST on purchases, divided by total sales

The following table shows the actual tax return labels that were used to calculate the ratios.

Data item <sup>1</sup>	BAS label	Label letter on BAS <sup>2</sup>
Total sales	Total sales	G1
Total salary, wages and other payments	Total salary, wages and other payments	W1
Non-capital purchases	Non-capital purchases	G11
GST on sales	GST on sales	1A
GST on purchases	GST on purchases	1B

1. The data used to calculate the ratios for the 2010-11 income year were sourced from 2011 business activity statements.

2. The items have specific label letters on activity statements. Copies of the activity statements may be viewed or downloaded from the online version of Taxation statistics 2010-11 on the Tax Office website or from the CD-ROM.

## Exclusion criteria and explanatory notes

### Activity statement ratios

#### Selection and exclusion criteria:

The selection criteria used to extract the data for these ratios are shown in the following tables.

Ratio	Data item	Criteria - all entities	Criteria - "profitable" entities
Wages to sales	Total sales Total salary, wages and other payments Wages to sales ratio	Greater than \$50,000 Greater than or equal to \$10,000 Total salary, wages and other payments divided by Total sales	Greater than \$50,000 Greater than or equal to \$10,000 Total salary, wages and other payments divided by Total sales  Sales greater than (Total salary, wages and other payments plus Non-capital purchases)
Expenses to sales	Total sales Total salary, wages and other payments Expenses to sales ratio	Greater than \$50,000 Greater than or equal to \$0  (Non-capital purchases and total salary, wages and other payments) divided by total sales	N/A N/A  N/A
Net GST to sales	Total sales Total sales to GST on sales Net GST to sales ratio	Greater than \$50,000 Total sales greater than GST on sales (GST on sales less GST on purchases) divided by total sales	Greater than \$50,000 Total sales greater than GST on sales (GST on sales less GST on purchases) divided by total sales  Sales greater than (Total salary, wages and other payments plus Non-capital purchases)