Tax compliance for franchisee

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Enriching Your Business

When setting up your franchise business, you will need to apply for a tax file number (TFN) and an Australian business number (ABN). The TFN is used when preparing the income tax return while the ABN is needed in completing the Business Activity Statement (BAS). Your ABN is a unique identifier for your business and is widely used in your business dealings. It is also used to register your goods and services tax (GST) and pay as you go (PAYG) withholding. As a general guide, your ABN should be included on all business stationeries and all invoices that your franchise business issued.

1) Annual income tax return

All business owners in Australia are required to lodge an annual income tax return. Tax return lodgement can vary slightly depending on the legal structure you have chosen for your franchise business.

If your franchise is setup as a sole trader enterprise, the income from your business is declared in your individual tax return. If you have chosen a partnership, company or trust structure, a tax return must then be lodged for the respective structure. It is mandatory to lodge your business income tax return each year whether the business has to pay tax or not.

The due date for lodgement of individual tax return is 31 October each year while company has different due date depending on their turnover.

2) Goods and Services Tax (GST)

Most goods sold and services supplied in Australia incur a goods and services tax of 10%. There are some exceptions to this, which includes basic foods, some education, health and childcare expenses.

a) Registering for GST

You must register your business for GST if your expected annual turnover is $75,000 or more. You will charge 10% GST on goods and services and claim credits for GST that you have paid on business purchases and expenses.

If you expect your annual turnover to be less than $75,000, you can choose to register for GST if you wish. However, if you are unsure of whether your annual turnover will reach $75,000 for the financial year, you will need to monitor the turnover that you are generating. When your turnover for the financial year has reached this threshold, or is likely to before the end of the financial year, you must register for GST within 21 days.

b) Business Activity Statements (BAS)

If you are registered for GST, you will be required to lodge regular business activity statements (BAS). These are used to report details of your GST that you are entitled to claim back and pay any GST owing to the ATO.

BAS are required to be lodged either monthly, quarterly or annually. Monthly lodgement is primarily for businesses with a GST turnover of at least $20 million, although the ATO may require some businesses to report monthly. Businesses can also choose monthly reporting if they wish. Monthly BAS, and associated payments, are due on the 21st day of the following month.

Businesses with GST turnover of less than $20 million generally pay GST quarterly. There are three options for quarterly lodgement. The first requires all relevant information to be provided each quarter, with the due date for lodgement and payment 28 days after the end of the quarter. The other two options require quarterly payments, with relevant information reported quarterly and/or annually. The annual information is generally due at the same time as the business's income tax return.

Those businesses that have registered for GST voluntarily can elect to report and pay GST annually. Again, this is usually lodged together with the business's tax return.

c) Accounting for GST

GST can be accounted for on either a cash or non-cash basis. When using a cash basis, GST is payable only when payment has been received from your customer. Therefore, if you make a sale or provide a service in March but do not receive payment until April, the GST relevant to the transaction is reported and paid following the June quarter. Similarly, if you purchase something for your business in March but do not pay for it until April, you cannot claim a GST credit for it until you lodge your June quarter activity statement. Usually, a business must have an annual turnover of less than $2 million to qualify for the cash basis.

Accounting for GST on a non-cash basis means that GST is reported and paid to the ATO at the end of the quarter in which either full or part payment is made or an invoice is issued, whichever is sooner. So, if a sale or service occurs in March and an invoice is issued immediately, the GST is reported on the March quarter BAS, even if payment is not made until April. Similarly, GST credit for purchases is claimed in the quarter in which either you make a payment or the supplier issues an invoice, whichever occurs first.

Conclusion

The ATO takes an assertive position to ensure a fair tax system and level playing field for all. Therefore, it is crucial to get your tax compliance right to avoid any penalty and most importantly to avoid any unnecessary compliance burden on the business.

We would like to speak to you and assist if you have any questions or concerns. Contact us now for your **complimentary** and **no obligation** first meeting to discuss on how we can assist you in your tax compliance.

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