



The Little Blue Book

An A-Z Guide to Common
Accounting Terms

A

Accelerated depreciation

The accelerated depreciation deduction applies for each new asset in the income year that the asset is first used or installed ready for use for a taxable purpose. The usual depreciating asset arrangements apply in the subsequent income years that the asset is held.

Accrual Revenue

Accrual Revenue is income that a company has earned but for which it has not yet received payment.

Acquisition

The purchase of goods or services in a business. The term may also refer to something else “acquired” such as the purchase of Assets.

Activity statement

All businesses in Australia that are registered for GST need to lodge an Activity Statement (otherwise known as BAS) to report on the amount of GST they have collected and paid, as well as PAYG instalments and other taxes. It is usually filled out quarterly, but it can also be done monthly or annually depending on the size and turnover of the business.

Adjustments

A business may have to make changes on its current activity statement to increase or decrease the amount of GST it must pay for a reporting period. These changes are known as ‘adjustments’.

There are two types of adjustments:

- Increasing adjustments, which increase how much GST you must pay for a reporting period
- Decreasing adjustments, which decrease how much GST you must pay for a reporting period.

Aggregated Turnover

Aggregated turnover is a business' annual turnover, plus the annual turnovers of any business entities that are affiliated or connected.

Annual turnover

Annual turnover usually refers to the total income made by a business over a year. It's sometimes also called 'gross revenue' or 'total sales'.

Assessment Notice / Notice of Assessment

A document issued by the ATO detailing taxable income and tax position for the year.

Australian Business Number (ABN)

This is a unique 11-digit number issued by the Australian Business Register (which is operated by the ATO) that identifies a business. All businesses in Australia are required to have an ABN.

Australian National Accounts

Economic statistics produced by the Australian Bureau of Statistics (ABS) on income, expenditure and production in the economy.

Australian Tax Resident

An Australian resident for tax purposes is someone whose usual place of residence is in Australia. This person doesn't need to be an Australian citizen or a permanent resident for immigration purposes to be considered a tax resident.

Avoidance

Tax avoidance occurs when taxpayers exploit the tax laws to gain an advantage. Such transactions generally serve no commercial purpose and are entered into merely to obtain a tax benefit that was not intended by parliament. The extent to which tax avoidance is included in the tax gap depends on whether it is contestable.

B

Base year

The base year is the tax year ending in the previous calendar year (that is, for the 2023 assessment period the base year is 2021-22).

Business Activity Statement (BAS)

All businesses in Australia that are registered for GST need to lodge a BAS to report on the amount of GST they have collected and paid, as well as PAYG instalments and other taxes. It is usually filled out quarterly, but it can also be done monthly or annually depending on the size and turnover of the business.

Business deductions

A tax deduction for expenses incurred in running a business.

C

Capital acquisitions

The capital used to acquire other assets. This capital is used to purchase assets like equipment, inventory, software, or even a business itself. The purpose of these acquisitions are, ultimately, to grow the overall profits of a business.

Capital asset

A capital asset is property that is expected to generate value over a long period of time.

Capital Gains Tax

This is a tax paid on any income that is due when an asset is sold (such as shares or property) and make a profit.

Capital Works

Capital works used to produce income, including buildings and structural improvements, are written off over a longer period than other depreciating assets.

Capital loss

A capital loss is a loss incurred when a capital asset is sold for less than the price it was purchased for. In regards to taxes, capital gains can be offset by capital losses, reducing taxable income by the amount of the capital loss.

Cash flow

This is the net balance of money coming into and going out of a business at any one time. It is usually summarised in a cash flow statement, which is a financial report of where money is coming from (for example, from sales) and going to (for example, to pay salaries) in a business. Positive cash flow means more coming into the business than going out, and negative cash flow means more money is going out than in.

Company income tax

The amount of income tax a business has to pay, depending on its taxable income.

Company public officer

The public officer of a company is the person the ATO would normally deal with for the entity's tax affairs such as record keeping and submitting company returns.

Compliance activities

Direct interventions initiated by the ATO to ensure taxpayers comply with their tax and superannuation obligations.

Complying superannuation funds

Funds which comply with the Superannuation Industry (Supervision) Act 1993. These funds qualify for concessional tax rates. A complying super fund is taxed at 15%. Non-complying super funds do not receive concessional tax rates. A non-complying super fund is taxed at 45%.

Contractor

This is an individual who performs work for others through their own business, either as a sole trader or in their own company, partnership or trust. Work is usually performed for set terms or periods of time. A contractor needs to have an Australian Business Number (ABN), pays their own taxes and super, and is not entitled to paid sick or injury leave.

D

Deductions

When a business prepares a tax return, it can claim most business expenses as tax deductions to reduce taxable income.

Deferred GST Scheme

If eligible, the deferred goods and services tax (DGST) scheme allows importers to defer payment of goods and services tax (GST) on all taxable imports into Australia.

Depreciation

The rate at which a business asset loses value over time.

Diesel fuel rebate scheme

Fuel schemes provide credits and grants to reduce the costs of some fuels or to provide a benefit to encourage the recycling of waste oils.

Double tax agreements

A tax treaty is also referred to as a tax convention or double tax agreement (DTA). They prevent double taxation and fiscal evasion, and foster cooperation between Australia and other international tax authorities by enforcing their respective tax laws.

E

Economic group

Financially or administratively connected entities with a common source of control (majority or effective ownership of greater than 50%).

EFT code

A business' unique payment reference number (PRN) ensures a payment is credited to the correct account. A PRN may also be called an EFT code (electronic funds transfer code).

Eligible Termination Payments (ETP)

Eligible termination payments (ETP) are lump sum payments paid to an employee on resignation, retirement or death. The payments are assessable income to the employee but can be taxed at concessional rates depending on the employee's age and length of employment.

Evasion

The act of evading tax obligations.

Excise

A tax on alcohol, tobacco, fuel and petroleum products produced or manufactured in Australia. Collectively, these products are referred to as excisable goods.

Excise Equivalent Goods (EEGs)

Imported alcohol, tobacco, fuel and petroleum products (including LPG, LNG and CNG) that are subject to duty are treated consistently with goods manufactured in Australia.

F

Fringe Benefits Tax (FBT)

This is a tax that employers pay on any benefits given to an employee in addition to their salary or wages, separate to income tax. It could include benefits such as being provided with a work car, access to a discounted loan, paying school fees or salary sacrifice arrangements. It is calculated on the taxable value of the fringe benefit and employers can generally claim an income tax deduction for the cost of providing these benefits, as well as GST credits.

Fuel Tax Credit

Fuel schemes provide credits and grants to reduce the costs of some fuels or to provide a benefit to encourage the recycling of waste oils.

G

Gift deductible entity

This is an organisation, agency or fund that has been approved by the ATO as eligible to receive tax deductible gifts or contributions. This means that whenever someone makes a donation to one of these entities, they are able to deduct the amount of the donation from their taxable income when lodging their annual tax return for that year.

Goods and Services Tax (GST)

Goods and services tax (GST) is a tax of 10% on most goods, services and other items sold or consumed in Australia. If a business is registered for GST, they are required to collect this extra money (one-eleventh of the sale price) from customers.

Gross Tax Gap

The net gap plus the amount of revenue raised and collected through compliance activities.

GST

See Goods and Services Tax.

GST Credits

This term refers to the GST incurred as a business expense to create goods or services. They may also be called Input Tax Credits. The ATO allows businesses to claim back the GST credits a business incurs as part of the expenses involved in providing your goods or services.

H

High Wealth Private Groups

A private business group that controls net wealth of \$50 million or more.

I

Imputation credits

When Australian companies pay dividends to their shareholders, they will have already paid tax on the profits out of which the dividends were paid. These taxes can be attributed (or 'imputed') to the shareholders as a tax credit, which can be used to reduce their income tax payable.

Income Tax

This is the tax paid to the government each year on all forms of income, including wages, business profits and investment returns. It can also apply to income that comes from the sale of assets such as a property or shares.

Instalment Activity Statement (IAS)

A pre-printed document issued by the ATO monthly which summarises the amounts of PAYG instalments, PAYG withholding and ABN withholding.

Invoice

This is a record of purchase given to customers when they pay for goods and services, and includes the type of product/service provided, the quantity and the agreed price. If a business is registered for GST then they must provide a 'Tax invoice' that details the amount of GST due for each item.

L

Late Lodgement Penalty (LLP) / Failure To Lodge Penalty

A business may receive a Failure To lodge (FTL) on time penalty if it has an obligation to lodge or report by a particular date, but does not lodge by that due date. This may include, lodging a tax return, reporting PAYG instalments, GST or PAYG withholding on an activity statement by the due date.

Luxury Car Tax (LCT) Payable

The amount of luxury car tax payable, as reported at label 1E on the business activity statement.

M

Medicare levy

This is an amount of money collected in the same way as income tax that goes towards funding the public health system in Australia. The amount is usually 2% of taxable income, although some people may pay less or none at all, depending on their circumstances.

N

Net Tax Gap

The difference between theoretical tax according to the law, and actual tax paid voluntarily or collected as a result of compliance activities.

Non resident

Also known as a Foreign Resident, this is someone who has come to Australia but is not considered an Australia tax resident. Foreign residents have no tax-free threshold and do not need to pay the Medicare levy, but they still need to lodge a tax return declaring any income sourced in Australia.

Non-Commercial Loss

A non-commercial business loss is a loss incurred, either as a sole trader or in partnership, from a business activity that is not related to the primary source of income.

Non-payment

Debts to the ATO that have been written off or are currently outstanding.

P

Pay As You Go (PAYG)

When a business and investment income reaches a certain amount, income tax must be paid in instalments. These payments are usually quarterly and assist in avoiding a large tax bill after an income tax return is lodged.

Pay As You Go (PAYG) Withholding

The value of income tax withholding payable by employers on employee salary and wages. Other withholding not from salary and wages (including non-resident interest, dividend or royalty withholding, no-ABN and no-TFN) are excluded.

PAYG instalments

When a business and investment income reaches a certain amount, income tax must be paid in instalments. These payments are usually quarterly and assist in avoiding a large tax bill after an income tax return is lodged.

Petroleum Resource Rent Tax (PRRT)

A profits-based tax that only taxes profits above a specified rate of return from the sale of petroleum resources.

R

Random Enquiry Program (REP)

A process for selecting tax returns for evaluation that ensures all tax returns have the same likelihood of being chosen.

Receipt

This is a document that acts as a proof of purchase, and it must always be provided for sales of over \$75 or if it is requested by the customer. It can be printed or handwritten, and it must contain the company's ABN or ACN, plus the date of sale and details of the product or service including price.

Roll-over relief

A business may be entitled to rollover relief, if a balancing adjustment event occurs to a depreciating asset because of a change in ownership.

S

Salary sacrifice

This is an arrangement between an employer and employee in which the employee agrees to give up part of their future salary or wages in return for benefits of a similar value, such as a car, property or super contributions. This is sometimes also referred to as salary packaging, and the main benefit is a reduction in taxable income to the employee.

Self employed

This covers anyone who earns business income but doesn't work as an employee for someone else. Anyone who is self employed needs to register for an Australian Business Number (ABN), pay their own taxes and manage their own super.

Sole trader

This is when an individual operates a business entirely on their own. Sole traders need to register for an Australian Business Number (ABN), pay their own taxes and manage their own super.

Standard Business Reporting (SBR)

Standard Business Reporting (SBR) is a standard approach to online or digital record-keeping. Software Developers (SWDs) build SBR rules into their business/accounting software to make it 'SBR-enabled'. Businesses that use SBR-enabled software can then report using information already recorded as part of running their business.

Super guarantee

This is the minimum percentage of earnings that must be paid by an employer into the employee's nominated superannuation fund.

Superannuation

Superannuation is money employers pay eligible workers to provide for their retirement.

Superannuation Guarantee Charge

The super guarantee charge (SGC) applies when employers don't pay the minimum amount of super guarantee (SG) for their eligible employees to the correct fund by the due date. The SGC is more than the super a business would have otherwise paid to the employee's fund and is not tax deductible.

T

Tax agent

This is a type of accountant who specialises in the area of taxation, and any related laws.

Tax audit

This is when the ATO takes a detailed look at an individual tax return and deductions, or business taxes and BAS, to make sure everything is accurate and the amount of tax paid is correct. Businesses and Individuals may be selected for an audit due to triggering a 'red flag', such as an unusually high number of deductions, or it might be random, and the audit can go back two years for individuals and up to four years for businesses.

Tax concessions

These are a variety of benefits, such as flexible payments and reporting options, available to businesses in Australia if they meet certain criteria, such as an annual turnover of less than \$50 million or charity/not-for-profit status.

Tax evasion

This is the illegal practice of not paying taxes that are rightly owed, whether these are income taxes, employment taxes or sales taxes. This can include filing false claims, not reporting income or engaging in contrived tax schemes. The punishments for tax evasion and tax fraud can include fines, community service and even prison time.

Tax File Number

This is a unique personal reference number for Australian taxes and superannuation, and it is essential for filing an annual tax return, accessing government benefits and making voluntary super contributions.

Tax Gap

An estimate of the difference between the amount of tax theoretically payable (assuming full compliance of tax law by all taxpayers) and the amount actually reported or collected for a defined period.

Tax invoice

If a business is registered for GST then they must provide a 'tax invoice' that details the amount of GST due for each item sold, in addition to the type of product/service provided, the quantity and the agreed price.

Tax offsets

These are rebates provided to individuals and businesses under certain circumstances that reduce the amount of tax required to pay.

Tax refund

After lodging an annual tax return, the ATO will assess whether the correct amount of tax has been paid in the relevant financial year.

Tax return

This is a form that most individuals in Australia need to fill out each year that tells the ATO how much money they have earned in the year and deductions claimed. It can be filled out online, on paper or via a tax agent, and the ATO uses it to assess whether the correct amount of tax has been paid.

Tax withheld

This is the amount of tax that is kept by an employer each pay cycle and passed on to the ATO. The amount depends on the relevant tax rate for the amount an employee earns.

Taxable supplies

Sales of goods and services in Australia that must include GST in their price are referred to as 'taxable sales'. As a business, taxable sales are made if the business is registered or required to be registered for GST.

Total Business Income (TBI)

All ordinary income earned in the ordinary course of running a business for the income year.

Turnover

Also known as income or gross revenue, turnover is the total amount of sales a business makes over a set period.

U

Useful Life / Effective Life

The useful/effective life of a depreciating asset is used to work out the asset's decline in value for which an income tax deduction can be claimed.

V

Value-added Tax (VAT)

A tax on consumer spending. The tax is placed on a product or service when there is value added at the stage of production or at the final sale to the consumer. Each business in the supply chain charges VAT on their sales and is entitled to a refund of VAT paid on their inputs or purchases. Australia's GST is a value added tax on goods and services for domestic consumption.

