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Glossary Terms

Confusing tax terms? We've got you covered!

Here's a list of the most important and common words in taxation that are used on a day-to-day basis.

01

Assessable income :

Assessable income refers to income derived directly or indirectly from all sources, whether in or outside of Australia, during a financial year. Salary and wages, tips, allowances, interest, dividends, bonuses, commissions, and rent are all examples of compensation. Gifts or prizes, as well as some government pensions and payments, are usually exempt from taxation.

02

Australian Business Number (ABN) :

An ABN is a one-of-a-kind 11-digit number that identifies your company to the government and the community. All businesses in Australia are required to have an ABN, which makes dealing with the ATO on all tax-related matters much easier. It is free to register for an ABN through the Australian Government's Business Registration Service.

03

Australian Tax Resident :

For tax purposes, an Australian resident is someone whose usual place of abode is in Australia. To be considered a tax resident, you do not need to be an Australian citizen or permanent resident for immigration purposes.

04

Business Activity Statement (BAS) :

A Business Activity Statement (BAS) summarizes the taxes paid by your company. You can submit your BAS to the ATO on a regular basis, whether monthly, quarterly, or annually.

05

Capital Gains Tax :

Capital gains tax (CGT) is the tax liability incurred by a taxpayer because of profit made from the sale of an investment. For example, if a person sells a property, he has owned for more than 12 months and makes a profit, he must pay CGT. In layman's terms, it is the tax on realized capital gains.

06

Cash flow :

The movement of money into and out of a business is referred to as cash flow. Cash received represents inflows, while cash spent represents outflows. The cash flow statement is a financial statement that details a company's cash sources and expenditures over time. Cash flows from operations, investing, and financing are common categories for a company's cash flow.

07

Contractor :

This is a person who works for others through their own business, either as a sole proprietor or through their own company, partnership, or trust. Work is usually done for specific terms or periods of time. A contractor must have an ABN, pay their own taxes, and super, and is not entitled to paid sick or injury leave.

08

Deduction :

1. These are expenses that can be subtracted from your taxable income, making your tax bill smaller. Common deductions include things like mortgage interest, charitable donations, and state and local taxes.

09

Family tax benefit :

The Family Tax Benefit (FTB) is a two-part government payment which helps families with the cost of raising children. The amount of FTB that a family receives is based on their income and the number of children they have.

10

Franked income :

When you own shares in a company, the dividends that are paid out of which tax has been paid by them can be used as an income-tax offset. This system is called "imputation". The franking credits for this payment allow taxpayers to take advantage and use it to reduce tax burden.

11

Fringe Benefits Tax (FBT) :

This is a separate tax paid by employers on any benefits provided to employees in addition to their salary or wages. It could include benefits such as a company car, access to a discounted loan, payment of school fees, or salary sacrifice arrangements. It is based on the taxable value of the fringe benefit, and employers can generally claim an income tax deduction as well as GST credits for the cost of providing these benefits.

12

Gift deductible entity :

This is a company, organization, or fund that has been approved by the ATO to accept tax-deductible gifts or contributions. This means that when someone donates to one of these organizations, they can deduct the amount from their taxable income when filing their annual tax return for that year.

13

Gross income :

In business, gross income is defined as gross revenue less direct costs. Gross income is the most basic measure of a company's profitability in business because it includes direct costs (also known as cost of goods sold, or COGS) but excludes other costs your company may incur. Gross margin is another term for gross income.

14

GST :

The goods and services tax (GST) is a tax on goods and services sold for personal consumption. The tax is incorporated into the final price and is paid by the consumer at the point of sale, with the seller passing it on to the government. The GST is typically levied at a single rate of 10% across the country.

15

HECS :

The Higher Education Contribution Scheme (HECS) is an essential component of Australia's higher education system. When your child enrolls in university or another approved higher education provider, they will be given the option of using HECS-HELP to pay for their studies.

16

Imputation credits :

Imputation credits are essentially tax credits given to investors by corporations when they pay a dividend. This reflects the company's previously paid corporate tax.

17

Income statement :

Income statements, also known as profit and loss (P&L) statements, summarize your company's income and expenses over a given time period. It includes revenue, expenses, gains, losses, and net income for the period covered by the statement.

18

Income Tax :

An income tax is a type of tax levied on earned and unearned income of an individual or business. An income tax is a tax levied on earned and unearned income of an individual or business. It is levied on salaries, wages, tips, commissions, and interest and dividends.

19

Invoice :

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

20

Marginal tax rate :

The marginal tax rate is the percentage of taxable income that is taxed for every additional dollar earned. It is a progressive tax system in which those with higher incomes pay more taxes while those with lower incomes pay less. It only applies to the portion of your taxable income that is in the highest tax bracket, not your entire income.

21

Medicare levy :

This is a sum of money collected in the same way as income tax that goes towards funding Australia's public health system. The amount is usually 2% of your taxable income, but depending on your circumstances, you may pay less or none. If you earn more than a certain amount and do not have adequate private health insurance, you may be required to pay a Medicare levy surcharge of up to 1.5 percent.

22

Non-resident :

A Foreign Resident is someone who has moved to Australia but is not a tax resident. Foreign residents have no tax-free threshold and do not have to pay the Medicare levy, but they must still file a tax return declaring any income earned in Australia.

23

Pay As You Go (PAYG) with holding :

Pay As You Go (PAYG) withholding is a method of withholding income tax from the salary or wages of an employee or contractor. As a result, rather than the recipient of the income, the payer of the income pays the tax directly to the ATO on behalf of the employee or contractor.

24

Receipt :

A receipt is a written acknowledgement issued by a seller to a buyer stating that a specified amount of money was received as payment for goods or services provided (transaction). A receipt serves as proof that an invoice has been paid in part or in full.

25

Salary sacrifice :

This is an agreement between an employer and an employee in which the employee agrees to forego a portion of future salary or wages in exchange for similar benefits such as a car, property, or super contributions. This is also known as salary packaging, and the main advantage is that it reduces your taxable income.

26

Self-employed :

A self-employed person is someone who works for themselves in their own business rather than working as an employee in someone else's. The definition has some minor variations, such as for tax or legal purposes.

27

Sole trader :

When an individual runs a business entirely on their own. It's the simplest and cheapest way to run a business in Australia because you're the sole owner and have complete control – but you also have full legal responsibility for the company.

28

Superannuation :

This is a sum of money set aside while working that will provide you with an income stream when you retire. Your employer contributes 10% of your salary to your nominated super fund, which invests the money on your behalf to help the balance grow. You can access the funds when you retire or under special circumstances, such as a terminal medical condition.

29

Super guarantee :

This is the minimum percentage of your earnings that your employer must contribute to your nominated superannuation fund. The current rate is ten percent.

30

Taxable Income :

The portion of your gross income used to calculate how much tax you owe in a given tax year is known as taxable income. It is broadly defined as adjusted gross income (AGI) less allowable itemised or standard deductions. Wages, salaries, bonuses, and tips are all examples of taxable income, as are investment income and various types of unearned income.

31

Tax agent :

This is a type of accountant who focuses on taxation and any related laws. Only work with a registered tax agent who is listed by the Tax Practitioners Board (TPB) and licensed to assist individuals and businesses with their taxes.

32

Tax amendment :

An amendment to a tax return is a change made to the return after it has been filed. Taxpayers may need to file an amendment if they discover that they made a mistake on their return, or changes in personal circumstances, or new information that was not available when the original return was filed.

33

Tax audit :

A tax audit is the process of examining an individual's or organization's tax return to ensure accuracy and compliance with tax laws. The purpose of a tax audit is to ensure that taxpayers are paying the correct amount of taxes, and to identify any errors or potential areas of non-compliance.

34

Tax avoidance :

Tax avoidance is the legal practice of minimizing one's tax liability. It typically involves taking advantage of loopholes and deductions in the tax code to reduce the amount of taxes owed.

35

Tax concessions :

A tax concession is a reduction in the amount of tax that is payable. It can be in the form of a deduction, rebate, exemption, or offset. Tax concessions are generally available to businesses and individuals.

36

Tax Deductible :

A tax-deductible expense is one that can be deducted from a taxpayer's gross income to produce adjustable gross income, which reduces tax liability. When your taxable income is reduced, you pay less tax!

37

Tax evasion :

Tax evasion is the illegal act of avoiding paying taxes by failing to report income, hiding assets, or engaging in other fraudulent activities. Tax evasion is a serious offense that can lead to harsh penalties, including fines and imprisonment.

38

Tax File Number :

A Tax File Number (TFN) is a unique nine-digit number issued by the Australian Taxation Office (ATO). It is used by individuals and businesses to identify themselves for tax and super purposes.

39

Tax invoice :

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

40

Tax lodgment :

Tax lodgment is the process of filing your tax return with the ATO. The tax lodgment deadline is typically set by law, and taxpayers who fail to lodge their return by this date may be subject to penalties.

41

Tax offsets :

A tax offset is a deduction that can be claimed by individuals or business to reduce the amount of tax payable. In general, offsets can reduce your tax liability to zero, but they will not result in a refund.

42

Tax rate :

The tax rate is the percentage of tax that a person or company pays on their income or profit. The tax rate can be a flat rate, which means everyone pays the same percentage, or it can be a progressive tax, which means that the rate goes up as the amount of income or profit increases.

43

Tax refund :

When a taxpayer overpays their taxes, the government is required to issue a tax refund. The tax refund is the difference between the amount of taxes owed and the amount of taxes paid.

44

Tax return :

A tax return is a document filed with a tax authority that reports income, expenses, and other relevant financial information. Taxpayers use tax returns to calculate their tax liability, schedule tax payments, and request refunds for overpayments of taxes. Most states require annual tax returns to be filed.

45

Tax with held :

This is the amount of tax that your employer keeps and passes on to the ATO each pay cycle. The amount is determined by the applicable tax rate for the amount you earn.

46

Temporary resident :

1. If neither you nor your partner is an Australian citizen and you are in the country on a temporary visa, you will be considered a temporary resident. This means that you will only need to declare income earned in Australia or from employment overseas while you are a temporary resident of Australia, but you will not need to declare any other foreign income or capital gains.

47

Unfranked dividends :

An unfranked dividend is a dividend that has not been subject to corporate tax. This means that the company has not paid tax on the profits that were used to generate the dividend, and as a result, the shareholders will be liable for paying tax on the dividend themselves.