TTPI

Tax glossary

What is corporate income tax?

Corporate income tax (or company tax) is a tax levied on the taxable income of companies. Taxable income includes revenue from business activities (gross income) less expenses. In Australia, corporate income tax is currently levied at different rates based on a corporate entity's gross income.

For more information on company tax, including company tax rates, see ATO: **Company tax rates**.

What is payroll tax?

Payroll tax is a tax levied on employers based on the total amount of wages paid to employees. In Australia, payroll tax is levied by each state, with different rules applying in each state.

What is land tax?

Land tax is a tax levied upon owners of land, based on the unimproved value of land. In Australia, it is administered by state and territory governments. While exemptions from the land tax base are determined at the state or territory level and vary, all states and territories exclude owner-occupied housing.

What is personal income tax?

Personal income tax is a tax levied on the capital and labour earnings of individuals, as well as some government payments. Personal income tax in Australia is a progressive tax, which means that the marginal rate of tax is higher at higher levels of income.

What is stamp duty?

Stamp duty is a tax that is levied on certain written documents and transactions. In Australia, it is imposed by state and territory governments, and can apply to transfers of property, motor vehicle registration and transfers, insurance policies, leases and mortgages.

What is the goods and services tax (GST)?

Goods and services tax (GST) is a tax that applies to the purchase of goods and services. In Australia, a rate of 10% applies to goods and services sold in Australia, with exemptions for some categories like education, health, unprocessed food, housing rent, and financial services. If the GST was applied more broadly, without any exemptions, it would collect significantly more revenue. Organisations registered for GST include the tax in the price they charge for their goods and services and claim credits for the GST included in the price of goods and services they buy for their business.

For more information on GST, see ATO: **Goods & Services Tax**.

What is a value added tax (VAT)? Is it different from the goods and services tax (GST)?

'Value added' is the difference between the sale price of a good or service and the cost of the inputs used to create that good or service. A value added tax (VAT) is imposed at each stage of production or distribution based on the increase in value of the product or service. In practice, this is achieved by taxing a business' sales but also refunding the VAT paid on their purchases so that, ultimately, the consumer bears the final burden of the tax. Australia's GST is a form of value added tax.

What is an excise?

An excise is a tax on specific goods. Excisable goods in Australia include alcohol, tobacco, and fuel and petroleum products. People who produce, import, store or manufacture excisable goods in Australia are required to have an excise licence and may need to pay excise tax (also referred to as excise duty).

What is the capital gains tax?

Capital gains tax is paid on the increase in value of assets (capital proceeds), less the cost base (generally, the original purchase value plus transaction costs). It is levied when assets are sold, and capital gains are therefore realized, at the asset owner's relevant income tax rate. A discount can apply to the capital gains tax if the asset has been held for more than 12 months. Individuals, partnerships and trusts meeting this criterion are eligible for a 50 per cent discount, while superannuation funds are eligible for a discount of one-third.

For information on CGT payable on the disposal of assets in Australia, see ATO: **Capital Gains Tax**.

What is a dividend imputation system?

A dividend imputation system allows a company to pass on a credit equivalent to the company tax paid on distributed profits to the recipient of the distributed profits. This credit can then be used to offset the tax liability of the beneficiary of the distribution. In Australia, such credits are known as franking credits and are refundable if the total value of credits exceeds the recipient's total tax liability. One implication of a dividend imputation system is that company tax acts as a withholding tax on dividends distributed to domestic resident shareholders, as these shareholders effectively pay tax on any dividends at their own marginal income tax rate.

What is the difference between an offset, credit, and rebate?

Tax offsets are often referred to interchangeably as credits or rebates. They directly reduce the amount of tax owed on taxable income on a dollar-for-dollar basis, and can be refundable or non-refundable. Refundable tax offsets can reduce an individual or entity's tax liability below zero, making the entity eligible for a refund. Non-refundable tax offsets can only reduce an entity's tax liability to zero. Tax offsets differ from tax deductions, which reduce the amount of income upon which a tax liability is calculated. See **TTPI Tax Fact #6: Good tax policy: Tax offsets or tax deductions?**

What is an inheritance tax?

An inheritance tax (otherwise known as an estate tax or death duty) is a tax levied on the assets of a deceased estate. The tax may be levied on either the individuals who are the beneficiaries of the deceased estate or on the estate itself. The tax liability is usually calculated as a percentage of the value of the inherited estate, and often applies a minimum threshold on the inherited value below which no liability is incurred. Australia does not currently have an inheritance tax, but taxation on the receipt of some superannuation benefits does resemble one.

What is a wealth tax?

A wealth tax is a tax levied on the market value of assets owned by an individual. Similar to an inheritance tax, the tax liability is usually calculated as a percentage of the total value of assets, and often only applies to wealth above a specified threshold.

What is the difference between source, residence and destination-based taxation?

There are three possible locations of a tax base:

- Source-based taxation, also known as origin-based taxation, gives tax jurisdiction to the location where goods and services are produced.
- Residence-based taxation gives jurisdiction to the location where the beneficiary of the income generated resides.
- Destination-based taxation gives tax jurisdiction to the location where the consumer of these goods and services consumes the good or service.

Companies can be a resident of one jurisdiction but carry out their business in another jurisdiction. Many jurisdictions have bilateral tax treaties in place to establish the taxing rights of the source and residence jurisdictions and avoid double taxation of companies' income.

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More information

Contact the director at robert.breunig@anu.edu.au | Contact us at tax.policy@anu.edu.au
https://taxpolicy.crawford.anu.edu.au/