

Simplified Tax System

This STS user guide briefly describes what the simplified tax system is, the criteria that needs to be met in order to enter the simplified tax system, and the benefits associated with using it.

The ways in which MYOB accounting and MYOB AssetManager software support the simplified tax system is also covered.

In essence, the simplified tax system requires STS taxpayers to report their financial figures on a cash basis. MYOB accounting software has included two new reports to cater for those reporting needs - the Account Transactions [Cash] and Profit & Loss [Cash] reports.

Overview

What is the Simplified Tax System?

The Simplified Tax System (STS) is an alternative method of determining taxable income for eligible small businesses with straightforward financial affairs. It came into effect on 1st July 2001 however, participation in this system is optional. The STS applies to whole income years only (not to parts of a year) and STS taxpayers can claim a full deduction for certain prepaid expenses.

You should also note that GST is distinct from the STS. You can continue to adopt an accrual-based GST system while still gaining the benefits of the STS. However, if you adopt the STS, it is recommended that you account for PAYG Instalments on a cash basis to ensure the best match between tax on income and PAYG instalments.

The 3 main elements of the STS are:

- A cash accounting method that recognises most business income and expenses only when they are received and paid. Therefore, to be compliant with the STS, you need to be able to report your financial figures on a cash basis.
- Simplified trading stock rules where businesses only need to conduct stocktakes and account for changes in the value of trading stock in limited circumstances.
- Simplified depreciation rules where depreciating assets costing less than \$1000 each are written off immediately. Most other depreciating assets are pooled and depreciated according to the rates of the pool.

If you choose to enter the STS you must use all three elements, where they apply.

What is the cash method of accounting?

If you elect to enter the STS you need to be able to report your financial figures on a cash basis.

The cash method of accounting records the sale or purchase of goods and services at the time they're paid for, not when they're delivered. This differs from the accrual method of accounting which records the sale or purchase of goods and services at the time they're delivered, not at the time they are paid for.

Am I eligible to enter the Simplified Tax System?

To be eligible to enter the STS, you need to meet the following criteria:

- Your turnover must be less than \$1 Million. Therefore, your business will be classified as being a Small Business.
 - Depreciating assets (excluding land & buildings) must be less than \$3 million.
 - If an entity is related to another business, the turnover and assets of all businesses within the group must be taken into consideration when considering turnover and asset eligibility.
 - Assuming that a business group is eligible to enter STS, if one business within the group enters STS, the other businesses in the group are not compelled to also enter the STS.
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What are the benefits of using the Simplified Tax System?

Most 'eligible' businesses will benefit from using the STS. However, given that the STS is optional, it is up to you to decide whether your business should use it or not. The benefits of using STS include:

- An immediate write-off for assets costing less than \$1000.
- A simpler and more generous asset regime.
- No need to perform an annual stocktake.
- An immediate deduction for business expenses paid up to 12 months in advance.

How can I enter the Simplified Tax System?

Entry into the STS is only available at the start of a new financial year. However, you must notify the ATO, using an approved form, if you want to enter the STS. Once you have entered the STS you are treated as a STS taxpayer for the entire year.

If you exit the STS, simplified depreciation rules continue to be used for those assets acquired during the period of the STS.

If you are forced to leave the STS at the end of the year because you no longer meet eligibility criteria, you are able to re-enter the STS in the year in which you become eligible again. However, if you simply elect to leave the STS you cannot re-enter the STS for a period of 5 years.

What changes occur if I enter the Simplified Tax System?

Income declared prior to entering the STS but received after entering the STS cannot be declared twice. Likewise, expenses claimed prior to entering the STS but not paid until you have entered the STS, cannot be claimed twice.

If you were using an accrual-based system prior to entering the STS:

- Ordinary income received after becoming a STS taxpayer will be excluded from your taxable income in situations where the ordinary income had been included in your assessable income in a previous year.
- If you had claimed a general deduction in a previous year for an amount incurred but not paid, you will not be able to claim another deduction in the year in which the amount was paid.

If you were using a cash-based system prior to entering the STS, income will continue to be recognised when received and expenses will continue to be recognised when paid.

What changes occur if I exit the Simplified Tax System?

If you exit the STS and commence using an accrual-based system:

- Ordinary income accrued but not received at the time you exit the STS should be included as assessable income in the year you stopped being a STS taxpayer.
- General deductions accrued but not paid at the time you exit the STS should be included as allowable deductions in the year you stopped being a STS taxpayer.

If you continue to use a cash-based system after exiting the STS, income will continue to be recognised when received and expenses will continue to be recognised when paid.

The depreciation pools created while in the STS must be carried forward after converting to a non-STs business.

New assets acquired after leaving the STS will be depreciated according to the Uniform Capital Allowance rules

MYOB accounting software and the Simplified Tax System

Does MYOB accounting software support the Simplified Tax System?

Yes, MYOB Premier v6, MYOB Accounting Plus v12, MYOB Accounting v12, and MYOB AccountEdge v1 support the Simplified Tax System.

How do I activate the Simplified Tax System?

If you elect to enter the STS you need to be able to report your financial figures on a cash basis. Therefore, if you were using a cash basis method of accounting prior to entering the STS, there are not any special rules that apply and you do not need to change any preferences in your MYOB software. Income is declared when it is received and expenses are claimed when they are paid. Any payments received which relate to invoices dated prior to entering the STS will be included in cash-based reports. Similarly, any payments made which relate to bills dated prior to entering the STS will also be included in cash-based reports.

However, if you were using an accrual method of accounting prior to entering the STS, any payments received which relate to invoices dated prior to entering the STS cannot be included in cash-based reports. Similarly, any payments made which relate to bills dated prior to entering the STS cannot be included in cash-based reports.

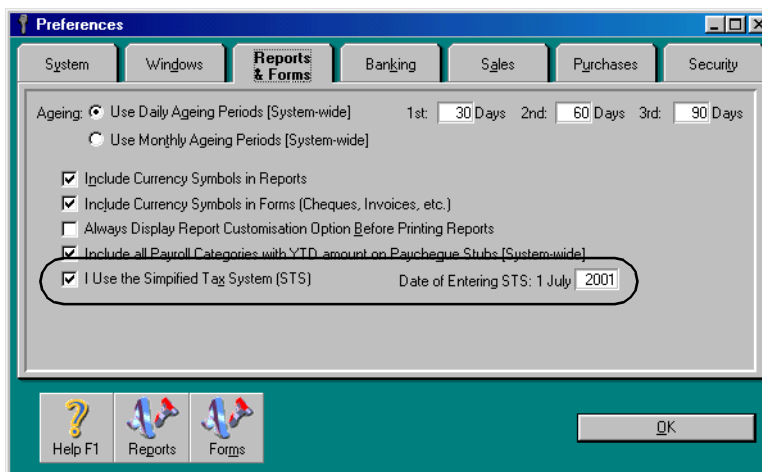
Therefore, a distinction needs to be made between those transactions that occurred before entering the STS and those that occurred afterwards.

If you are using MYOB Premier v6, MYOB Accounting Plus v12, MYOB Accounting v12, or MYOB AccountEdge v1 you need to mark the **I Use the Simplified Tax System (STS)** checkbox to make that distinction. This will allow you to produce the cash-based reports you need in order to view your cash-based profit and loss figures and assist you in checking the figures you need to enter for cash-based BAS reporting.

To set the 'I Use the Simplified Tax System' preference

- 1** Go to the **Setup** menu and choose **Preferences**. The **Preferences** window is displayed.
 - 2** Click the **Reports & Forms** tab.
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3 Mark the I Use the Simplified Tax System (STS) checkbox.



4 Enter the year in which you entered the STS in the **Date of Entering the STS** field.

By doing this, any payments received which relate to invoices dated prior to entering the STS will not be included in cash-based reports. Similarly, any payments made which relate to bills dated prior to entering the STS will not be included in cash-based reports.

How do I report using the Simplified Tax System?

If you are using MYOB Premier v6, MYOB Accounting Plus v12, MYOB Accounting v12, or MYOB AccountEdge v1, you need to produce the new **Profit & Loss [Cash]** and **Account Transactions [Cash]** reports in order to view cash-based profit and loss figures and assist you in checking the figures you need to enter for cash-based BAS reporting.

- The **Account Transactions [Cash]** report displays the accounts, and their associated values, that have been recorded when cash is received for the sale of goods and/or services and cash is paid for the purchased of goods and/or services.
- The **Profit & Loss [Cash]** report is a summary of information derived from the **Account Transactions [Cash]** report. It displays the total revenue amounts that have been received and the total expense values that have been paid and the actual net profit or loss.

To produce the **Account Transactions [Cash]** report:

- 1 Go to the **Reports** menu and choose **Index to Reports**. The **Index to Reports** window is displayed.
- 2 Click the **Accounts** tab.
- 3 Scroll down the list of reports on the left side until you see the heading, **Simplified Tax System**.
- 4 Click the **Account Transactions [Cash]** report in the list.
- 5 Click **Display**. The report will be displayed on your screen.

To produce the Profit & Loss [Cash] report:

- 1** Go to the **Reports** menu and choose **Index to Reports**. The **Index to Reports** window is displayed.
- 2** Click the **Accounts** tab.
- 3** Scroll down the list of reports on the left side until you see the heading, **Simplified Tax System**.
- 4** Click the **Profit & Loss [Cash]** report in the list.
- 5** Click **Display**. The report will be displayed on your screen.

What types of transactions are included in the cash-based reports

If you are using MYOB Premier v6, MYOB Accounting Plus v12, MYOB Accounting v12, or MYOB AccountEdge v1 and want to view a list of the types of transactions that might contain accounts, and their associated values, which will be reported in the **Profit & Loss [Cash]** and **Account Transaction [Cash]** reports, see 'Cash-based reports' on page 9.

Can I use an accrual method of accounting but report on a cash basis?

If you are using MYOB Premier v6, MYOB Accounting Plus v12, MYOB Accounting v12, or MYOB AccountEdge v1, you can still use an accrual method of accounting. However, you still need to produce the cash-based reports in order to enter the correct figures for your cash-based BAS reporting.

When can I claim a deduction for payroll expenses?

The ATO does not allow a deduction for payroll expenses until the amount has been paid to the relevant party. Therefore, this means that non-cash benefits (such as Salary Sacrifice Superannuation and Super Guarantee Charge) are not allowable deductions until the funds have been remitted to the relevant third party. However, the ATO has made an exception to the rule for STS taxpayers - if a salary payment is the subject of a PAYG withholding you can deduct the gross amount of the salary payment in the income year in which the 'net' amount is paid to the employee. Therefore, you do not have to wait until the PAYG withheld is forwarded to the ATO before being able to claim a deduction for this amount.

The ATO has also made an exception for 'after-tax withholdings' such as union dues. This exception does not, however, extend to deductions made before tax. If an 'after-tax' deduction is made from a paycheque, you can claim a deduction for the gross amount of the salary payment in the income year in which the 'net' amount is paid to the employee. However, you cannot claim a deduction for 'before-tax' deductions until the deduction is remitted to the appropriate third party. To resolve this, you should treat non-cash benefits and employer expenses as entitlements. When the entitlement is finally paid, the non-cash benefit and/or employer expenses will be expended to the applicable account.

MYOB AssetManager software and the Simplified Tax System

Does MYOB AssetManager software support the Simplified Tax System?

We are currently working on the next release of MYOB AssetManager Pro which will incorporate the STS legislation, changes covered in the Division 40 legislation of the NBTS (Capital Allowances) Act 2001 affecting Non-STs Businesses, and the pooling of software development expenditure.

You will be able to exit or enter the STS without having to make any manual adjustments to your asset data. The conversion is handled automatically by AssetManager when you start a new financial year and elect to either enter or exit the STS.

In the meantime, if you would like to take a look at MYOB AssetManager Pro version 2, a Test Drive of it is available on the MYOB Premier v6, MYOB Accounting v12, and MYOB Accounting Plus v12 installation CDs'. The Test Drive is a fully functional version of MYOB AssetManager Pro however the only restriction is that you are limited to 50 asset transactions. For more information about AssetManager Pro see http://www.myob.com.au/products/assetmanager_pro.

Where can I find out more about the Simplified Tax System?

If you require further information about the STS you should consult your accountant or contact the Australian Taxation Office (ATO).

Table: Cash-based reports

Transaction	Description
General Journal	If Income, Cost of Sale, Expense, Other Income and Other Expense accounts are used in a General Journal entry, the tax exclusive component of these accounts is included in the cash-based reports.
Spend Money	If Income, Cost of Sale, Expense, Other Income and Other Expense accounts are used in a Spend Money transaction, the tax exclusive component of these accounts is included in the cash-based reports.
Receive Money	If Income, Cost of Sale, Expense, Other Income and Other Expense accounts are used in a Receive Money transaction, the tax exclusive component of those accounts is included in the cash-based reports.
Customer Finance Charge	A customer finance charge is created by allocating an amount to a Finance Charge when recording a Receive Payments transaction or settling a credit note. If the linked income account for late charges (as set up in the Sales Linked Accounts window) is an Income, Cost of Sale, Expense, Other Income or Other Expense account, when the transaction is recorded, the customer Finance Charge amount will be included in the cash-based reports.
Customer Deposit Transfer	A customer deposit transfer is created by making a payment against an Order and then changing the Order to an Invoice. The payment made against the Order is initially deposited against the Liability Account for Customer Deposits. When the Order is converted to an Invoice, the payment is transferred from the Liability Account for Customer Deposits and applied against the Asset Account for Tracking Receivables. The cash component is calculated as the portion of the accounts receivable value attributable to Income, Cost of Sale, Expense, Other Income and Other Expense accounts in the Sales Invoice. This value is calculated on a pro-rata basis.
Customer Payment	When customer payments are made against Open invoices, Closed invoices and Orders, only the Open Invoice and Closed Invoice component of the customer payment is included in the cash-based reports (That is, Customer Payments made against Orders are not reported until the deposit payment is transferred). The cash component is calculated as the portion of the accounts receivable value attributable to Income, Cost of Sale, Expense, Other Income and Other Expense accounts used in the Sales Invoice. This value is calculated on a pro-rata basis.
Supplier Finance Charge	A supplier finance charge is created by allocating an amount to a Finance Charge when recording a Pay Bill transaction or Settling a Debit Note. If the linked expense account (as set up in the Purchases Linked Accounts window) or late charges is an Income, Cost of Sale, Expense, Other Income and Other Expense, when the transaction is recorded, the supplier Finance Charge amount will be included in the cash-based reports.
Supplier Deposit Transfer	A supplier deposit transfer is created by making a payment against an Order and then changing the Order to a Bill. The payment made against the Order is initially deposited against the Asset Account for Supplier Deposits. When the Order is converted to a Bill, the payment is transferred from the Asset Account Supplier Deposits account and applied against the Liability Account for Tracking Payables. The cash component is calculated as the portion of the accounts payable value attributable to Income, Cost of Sale, Expense, Other Income and Other Expense accounts in the Bill. This value is calculated on a pro-rata basis.

Transaction	Description
Supplier Payment	Supplier payments can be made against Open bills, Closed bills and Orders. Only the Open Bill and Closed Bill component of the Supplier Payment is included in the cash-based reports (That is, Supplier Payments made against Orders are not reported until the deposit payment is transferred). The cash component is calculated as the portion of the accounts payable value attributable to Income, Cost of Sale, Expense, Other Income and Other Expense accounts used in the Bill. This value is calculated on a pro-rata basis.
Credit Settlement	A Credit Settlement does not involve cash movement. The Income, Cost of Sale, Expense, Other Income and Other Expense make-up of a Credit Note might differ to the Income, Cost of Sale, Expense, Other Income and Other Expense make-up of the Sales Invoice that is receiving the credit application. To reflect that the component make-up might be different, both the original Credit Note and the Sales Invoice are included in the cash reports. The cash component is calculated as the portion of the Credit Note or Sales Invoice value attributable to Income, Cost of Sale, Expense, Other Income and Other Expense accounts. This value is calculated on a pro-rata basis.
Credit Refund Payment	The cash component is calculated as the portion of the Credit Note value attributable to Income, Cost of Sale, Expense, Other Income and Other Expense accounts. This value is calculated on a pro-rata basis.
Debit Settlement	A Debit Settlement does not involve cash movement. The Income, Cost of Sale, Expense, Other Income and Other Expense make-up of a Debit Note might differ to the to Income, Cost of Sale, Expense, Other Income and Other Expense make-up of the Bill that is receiving the debit application. To reflect that the component make-up might be different, both the original Debit Note and the Bill receiving the debit application are included in the cash-based reports. The cash component is calculated as the portion of the Debit Note or Bill value attributable to Income, Cost of Sale, Expense, Other Income and Other Expense accounts. This value is calculated on a pro-rata basis.
Debit Refund Deposit	The cash component is calculated as the portion of the Debit Note value attributable to Income, Cost of Sale, Expense, Other Income and Other Expense accounts. This value is calculated on a pro-rata basis.
Pay Employee transaction	If Income, Cost of Sale, Expense, Other Income and Other Expense accounts are used in a Pay Employee transaction, these amounts are included in the cash-based reports.