Print whole section

Mutuality and taxable income for not-for-profits

Explains mutuality and helps not-for-profit clubs, societies and associations calculate taxable income. (NAT 73436).

Last updated 4 December 2018

This guide has been prepared for not-for-profit (NFP) clubs, societies and associations that are taxable – that is, NFP organisations that are not exempt from income tax.

It helps these organisations to:

- work out if they need to lodge an annual income tax return
- calculate their taxable income, including how to treat mutual dealings with their members.

What's new

This guide applies from 1 July 2015 and replaces **Mutuality and taxable income** (NAT 73436-06.2010) which was released in June 2010. It has been updated to include the law change to the tax rates for not-for-profit companies which occurred since the last edition of the guide.

See also:

Below is a list of rulings that are referred to throughout this guide:

- GSTR 2002/3 *Goods and services tax: prizes*
- TR 97/11 *Income tax: am I carrying on a business of primary production?*
- TR 2004/5 *Income tax: taxation treatment of volume rebates paid to a retailer association*

Who is this guide for

Which not-for-profit (NFP) member-based organisations are covered by this guide and which ones are not.

Lodgment rules and tax rates

How to work out if your organisation needs to lodge a tax return and its tax rate.

Taxable income and mutuality

How to identify whether a person is a member how it affects your revenue and expenditure for income tax purposes.

Classifying revenue

To calculate taxable income, an organisation needs to classify revenue as non-assessable, assessable or apportionable.

Classifying expenses

To calculate taxable income, an organisation needs to classify expenses as non-deductible, deductible or apportionable.

Separating apportionable items

The methods you can use to apportion income and expenses.

Other issues

An overview of the other issues you need to consider such as CGT, GST and FBT.

Calculating taxable income

The steps for calculating taxable income and 2 detailed case studies.

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Who is this guide for

Which not-for-profit (NFP) member-based organisations are covered by this guide and which ones are not.

Last updated 4 December 2018

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Not-for-profit

Taxable

Organisations not covered

This guide is for not-for-profit (NFP) member-based organisations such as clubs, societies and associations that are taxable – that is, not exempt from income tax.

We explain which organisations are covered by this guide, and which ones are not.

You should use this guide if you are a financial officer, tax professional or other person involved in the administration of a taxable NFP organisation.

For this guide to apply to your organisation, your organisation must be both:

- not-for-profit
- taxable.

Examples of the types of organisations covered by this guide include:

- social clubs
- certain business and professional associations
- sporting clubs mainly engaged in providing hospitality services to their members.

See also:

- This guide does not apply to all NFP taxable organisations. For a list of organisations that are not covered, see Organisations not covered.
- For more examples, see the table 'Industry codes commonly used by taxable not-for-profit member-based organisations' in **Guide to company tax return for not-for-profit organisations**.

Not-for-profit

The basic premise of a NFP organisation is that it is not operating for the profit or gain of its individual members, whether these gains would have been direct or indirect. This applies both while the organisation is operating and when it winds up.

Any profit made by the organisation goes back into the operation of the organisation to carry out its purposes and is not distributed to any of its members.

We accept an organisation as NFP where its constituent or governing documents prevent it from distributing profits or assets for the benefit of particular people – both while it is operating and when it winds up. These documents should contain **acceptable clauses** showing the organisation's **NFP character**. The organisation's actions must be consistent with this requirement.

See also:

- Not-for-profit companies for examples of clauses that indicate NFP character.

Taxable

NFP organisations can be either exempt or taxable.

Many NFP organisations are taxable and may need to lodge income tax returns and pay income tax.

If your NFP organisation is not exempt from income tax, it is taxable.

Only certain types of NFP organisations are exempt from income tax. They come from these broad groups:

- charities
- community service organisations
- cultural organisations
- educational organisations
- employment organisations
- health organisations
- resource development organisations
- scientific organisations
- sporting organisations.

If you are unsure whether your NFP organisation is taxable or exempt, see **Do you need to pay income tax?** to help you work out your organisation's income tax status.

Organisations not covered

This guide does not cover the following types of organisations:

- partnerships
- strata title bodies corporate
- friendly societies
- life assurance companies
- life insurance companies
- mutual insurance companies
- credit unions.

Lodgment rules and tax rates

How to work out if your organisation needs to lodge a tax return and its tax rate.

Last updated 4 December 2018

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Not-for-profit or other taxable company

Lodgment rules

Tax rates

For income tax purposes, taxable NFP organisations are treated as either:

- not-for-profit companies
- other taxable companies.

This distinction is important because not-for-profit companies have special arrangements for lodging tax returns and special rates of income tax.

Find out about:

- Not-for-profit or other taxable company
- Lodgment rules
- Tax rates

Not-for-profit or other taxable company

To work out if your organisation needs to lodge an income tax return and what rate of tax it pays, you first need to determine if your organisation is a not-for-profit company or other taxable company.

A NFP organisation does not need to be incorporated to be treated as a company for income tax purposes.

Not-for-profit companies

For your organisation to be a not-for-profit company it must meet the 'not-for-profit requirement'. This means that:

- it must be a company that is not carried on for the purposes of profit or gain to its individual members
- its constituent documents must prohibit it from making any distribution, whether in money, property or otherwise, to its members.

Your organisation can be a not-for-profit company and still make a profit. However, any profits it makes must be used to carry out its purposes. The profits must not be distributed to members.

Example: Making a profit

A society makes a $40,000 profit for the year. It uses the profit to reduce its debts and provide for the activities it will carry on next year.

The prohibition on distributions applies while the organisation is operating and on its winding up. If it permits its members to transfer the assets to themselves on winding up, it is not a not-for-profit company.

A not-for-profit company can make payments to its members as bona fide remuneration for services they have provided to it, and as reasonable compensation for expenses incurred on behalf of the organisation.

The income tax law does not prescribe a form of words that a not-for-profit company must have in its constituent documents. The following example clauses would be acceptable, as long as other clauses were not contrary to them. The organisation's activities must be consistent with the clauses.

Example clauses for not-for-profit companies

Non-profit clause

'The assets and income of the organisation shall be applied solely in furtherance of its above-mentioned objects and no portion shall be distributed directly or indirectly to the members

of the organisation except as bona fide compensation for services rendered or expenses incurred on behalf of the organisation.'

Dissolution clause

'In the event of the organisation being dissolved, the amount that remains after such dissolution and the satisfaction of all debts and liabilities shall be transferred to another organisation with similar purposes and which has rules prohibiting the distribution of its assets and income to its members.'

Organisations carried on for the joint or common benefit of their members can qualify as not-for-profit companies. An example would be a professional association established to advance the professional interests of its members. However, the association must not be carried on for the profit or gain of its individual members.

Other taxable companies

Clubs, societies and associations that do not meet the 'not-for-profit requirement' are treated as other taxable companies.

This means that other taxable companies will include clubs, societies and associations that are not carried on for the purposes of profit or gain to their individual members but whose constituent documents do **not** prohibit distributions to their members.

Find out about:

- Lodgment rules
- Tax rates

Lodgment rules

Not-for-profit companies

Not-for-profit companies that are Australian residents have a taxable threshold. If the taxable income of a not-for-profit company in an income year is below the threshold of $416 per year, it is not required to lodge a tax return for that year.

Taxable income is rounded down to the nearest dollar – that is, cents are ignored.

Table: Not-for-profit company lodgment rules

Taxable income	Is the company required to lodge a return?
0 – $416	No. However, we may notify a particular company that it is required to lodge a return.
$417 and above	Yes.

Example: Rounding down to nearest dollar

An organisation's taxable income is $416.73. It reports its taxable income as $416.

We explain how to calculate taxable income in Taxable income and mutuality.

Other taxable companies

Other taxable companies are taxed on every dollar of taxable income. They must lodge an income tax return each year.

Company tax return

Not-for-profit companies and other taxable companies use the company tax return to lodge a return.

To know how to complete the company tax return, see **Guide to company tax return for not-for-profit organisations**.

Find out about:

- Tax rates

Tax rates

Not-for-profit companies

The income tax payable for not-for-profit companies depends on the level of taxable income and whether they are a:

- base rate entity from the 2017–18 income year
- small business entity for the 2015–16 and 2016–17 income years.

Before 1 July 2015, the rates of tax and taxable income levels were the same for all not-for-profit companies.

The tables below set out the rates of tax and taxable income levels.

Table: Not-for-profit company income tax rates – from the 2017–18 income year

Not-for-profit companies that are base rate entities		Other not-for-profit companies	
Taxable income	**Rates of tax**	**Taxable income**	**Rates of tax**
0 – $416	Nil	**0 – $416**	Nil
$417 – $832	55% for every dollar over $416	**$417 – $915**	55% for every dollar over $416
$833 and above	27.5% for every dollar	**$916 and above**	30% for every dollar
Note: If the taxable income is $833 or more, the whole amount is taxable.		**Note:** If the taxable income is $916 or more, the whole amount is taxable.	

Table: Not-for-profit company income tax rates – for the 2016–17 income year

Not-for-profit companies that are small business entities		Other not-for-profit companies	
Taxable income	**Rates of tax**	**Taxable income**	**Rates of tax**

0 – $416	Nil	**0 – $416**	Nil
$417 – $832	55% for every dollar over $416	**$417 – $915**	55% for every dollar over $416
$833 and above	27.5% for every dollar	**$916 and above**	30% for every dollar
Note: If the taxable income is $833 or more, the whole amount is taxable.		**Note:** If the taxable income is $916 or more, the whole amount is taxable.	

Table: Not-for-profit company income tax rates – for the 2015–16 income year

Not-for-profit companies that are small business entities		**Other not-for-profit companies**	
Taxable income	**Rates of tax**	**Taxable income**	**Rates of tax**
0 – $416	Nil	**0 – $416**	Nil
$417 – $863	55% for every dollar over $416	**$417 – $915**	55% for every dollar over $416
$864 and above	28.5% for every dollar	**$916 and above**	30% for every dollar
Note: If the taxable income is $864 or more, the whole amount is taxable.		**Note:** If the taxable income is $916 or more, the whole amount is taxable.	

Table: Not-for-profit company income tax rates – before 1 July 2015

Taxable income	**Rates of tax**

0 – $416	Nil
$417 – $915	55% for every dollar over $416
$916 and above	30% for every dollar **Note:** If the taxable income is $916 or more, the whole amount is taxable.

Tax rate examples

If the taxable income is $416 or less for a year, no tax is payable.

Example: Nil rate of tax

A not-for-profit company has taxable income of $416.84 in 2017–18.

The income tax is nil.

It is calculated as $416 x nil.

If a not-for-profit company has a taxable income between $417 and $915 (or between $417 and $863 for a base rate entity from 1 July 2017 the amount in excess of $416 is taxed at 55%.

Example: 55% rate of tax

A not-for-profit company has taxable income of $703.48 in 2017–18.

The income tax is $157.85.

It is calculated as ($703 – $416) x 0.55.

For the 2017–18 income year onwards, if the taxable income is more than $832 for a not-for-profit company that is a base rate entity, the tax rate of 27.5% is applied to all the taxable income.

Example: 27.5% rate of tax

A not-for-profit company that is a base rate entity has taxable income of $925.34 in 2017–18.

The income tax is $254.37.

It is calculated as $925 × 0.275.

For the 2015–16 income year, if the taxable income is more than $863 for a non–profit company that is a small business entity, the tax rate of 28.5% is applied to all the taxable income.

Example: 28.5% rate of tax

A non–profit company that is a small business entity has taxable income of $925.34 in 2015–16.

The income tax is $2263.62.

It is calculated as $925 × 0.285.

The ordinary company tax rate of 30% is applied to all the taxable income if the taxable income is more than $915 for either:

- any not-for-profit company in the 2014–15 income year and earlier
- a not-for-profit company that is **not** a base rate entity in the 2017–18 income year onwards.

Example: 30% rate of tax

A not-for-profit company that is **not** a base rate entity has taxable income of $2,182.92 in 2017–18.

The income tax is $654.60.

It is calculated as $2,182 × 0.30.

Other taxable companies

Other taxable companies are taxable from the first dollar. That is, they are taxable on all levels of taxable income and there is no threshold.

From 1 July 2017, the rate of tax is:

- 27.5% if the company is a base rate entity
- 30% if the company is **not** a base rate entity.

Your organisation is a **base rate entity** if it is a company that:

- has an aggregated turnover less than the aggregated turnover threshold – which is $25 million for the 2017–18 income year, and
- 80% or less of your assessable income is base rate passive income.

For the 2016–17 income year, the rate of tax is:

- 27.5% if the company is a small business entity
- 30% if the company is **not** a small business entity.

For the 2015–16 income year, the rate of tax is:

- 28.5% if the company is a small business entity
- 30% if the company is **not** a small business entity.

Your organisation is a **small business entity** if it is a company that:

- is carrying a business for all or part of the year
- has an aggregated turnover of less than $10 million for the 2016–17 income year (or an aggregated turnover of less than $2 million for the 2015–16 income year) – that is, your organisation's annual turnover plus the annual turnovers of any businesses it is connected or affiliated with.

Before 1 July 2015, the rate of tax is 30% (regardless of whether a company is a small business entity).

See also:

- Company tax rates
- Nature of trade – to work out if your organisation is carrying on a business.
- Changes to company tax rates

Turnover includes all ordinary income that your organisation earns in the ordinary course of business for an income year.

If your organisation is a not-for-profit company, its ordinary income includes its income from members.

Table: Turnover of not-for-profit companies

Include these amounts	Do not include these amounts
• revenue from sales to members and non-members • fees for services provided to members and non-members • interest from business bank accounts	

If your organisation is an 'other taxable' company, do not include mutual receipts in the calculation of aggregated turnover as they are not income.

See also:

- Mutual receipts
- Am I eligible for the small business entity concessions?

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Taxable income and mutuality

How to identify whether a person is a member how it affects your revenue and expenditure for income tax purposes.

Last updated 4 December 2018

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Taxable income

Mutuality principle

Meaning of member

> Categories of revenue and expenses
>
> Steps for calculating taxable income

The taxable income of a club, society or association is calculated in the same way as a company for tax purposes.

One particular aspect that affects many clubs, societies and associations is mutual dealings with members.

We explain how to identify whether a person is a member of an organisation.

As a result of the mutuality principle, revenue and expenditure of an organisation falls within one of three categories for income tax purposes.

We explain how the categories are used in calculating taxable income.

Find out about:

- Taxable income
- Mutuality principle
- Meaning of member
- Categories of revenue and expenses
- Steps for calculating taxable income

Taxable income

Taxable income is calculated as the difference between an organisation's assessable income and deductions.

Taxable income = assessable income – allowable deductions

See also:

- Calculating taxable income – for examples of how to calculate taxable income.

Assessable income

Assessable income is, broadly speaking, the income derived by your organisation. It can also include some capital gains made on the disposal of assets.

Many amounts received by a NFP organisation are assessable income. Examples are bank interest and the proceeds from fundraising drives to the public.

Not all amounts of money or property your organisation receives will be assessable income. Receipts derived from mutual dealings with members of your organisation are not assessable income. This is due to the principle of mutuality, which we discuss in Mutuality principle.

Deductions

Deductions are, broadly speaking, operating expenses that are incurred in earning assessable income. Examples of expenses incurred in deriving an organisation's assessable income are fees for earning bank interest and costs of fundraising drives to the public.

Your organisation may incur expenses in earning both assessable income and non-assessable income. The deduction your organisation will be able to claim will be limited to the extent the expenditure was incurred in deriving the assessable income. Therefore, your organisation may need to apportion its expenses.

For example, if only 30% of an organisation's bar sales are assessable, only 30% of expenses for running its bar will be deductible. Examples of other expenses that could be deductible but could require apportionment are printing, rent and insurance.

There are some deductions, however, that do not have to be incurred in deriving assessable income. They include tax-deductible gifts and superannuation contributions for employees.

Goods and services tax

The effect of goods and services tax (GST) on the calculation of taxable income differs depending on whether your organisation is registered for GST, or is required to be registered.

Find out about:

- The effect of GST on taxable income

Mutuality principle

The mutuality principle is a legal principle established by case law. It is based on the proposition that an organisation cannot derive income

from itself.

The principle provides that where a number of persons contribute to a common fund created and controlled by them for a common purpose, any surplus arising from the use of that fund for the common purpose is not income.

The principle does not extend to include income that is derived from sources outside that group.

Organisations that can access mutuality

The characteristics of organisations that can access mutuality typically include:

- The organisation is carried on for the benefit of its members collectively, not individually.
- The members of the organisation share a common purpose in which they all participate or are entitled to do so.
- The main purpose for which the organisation was established, and is operated, is the common purpose of the members.
- There is a common fund that gives effect to the common purpose and all the members contribute to it.
- All the contributions to the common fund are applied for the collective benefit of all the members, in line with the common purpose.
- Different classes of memberships may exist with varying subscription rates, rights and entitlements to facilities.
- The members have ownership and control of the common fund.
- The contributors to the common fund must be entitled to participate in any surplus of the common fund.*

* If an organisation's constituent document prevents it from making any distribution to its members, and this is the only thing that prevents an amount of its income from being a mutual receipt, the organisation is not prevented from accessing mutuality for income tax purposes.

Mutual dealings

As a result of the mutuality principle:

- receipts derived from mutual dealings with members are not assessable income (these are called mutual receipts)
- expenses incurred to get mutual receipts are not deductible.

Not all dealings involving members are mutual dealings.

The principle of mutuality does not apply to dealings between an organisation and member that go beyond a mutual arrangement and are in the nature of trade. In this situation, the fact the organisation is dealing with a member is not relevant.

Nature of trade

The definition of 'business' under tax law includes 'a trade'. The terms 'business' and 'trade' are commonly used to refer to activities that are commercial in nature and intended to produce a profit. These activities are usually for a taxable purpose.

However, the courts and tax law confirm that a mutual organisation may be carrying on a business (or trade) if various indicators are present. The indicators of business are outlined in TR 97/11 *Income tax: am I carrying on a business of primary production?* We also accept that the capacity to earn and distribute profits need not be present before an activity of a NFP entity has the form of a business.

A mutual organisation's business can either be for a taxable purpose (producing assessable income) or non-taxable purpose (producing mutual receipts), or a combination of both.

If a mutual organisation is carrying on a business, it may, in certain circumstances, be eligible for concessions available to small business entities (for example, capital gains tax concessions and immediate deductions for prepaid expenses).

To work out if your organisation is a small business entity, see Small business entity.

See also:

- TR 97/11 *Income tax: am I carrying on a business of primary production?*

Dealings with members

When an organisation transacts with its members, it must ask itself if the activity is either:

- a trade or something in the nature of trade producing a profit (a taxable purpose)
- a mutual arrangement which, at most, gives rise to a surplus of funds to the organisation (a non-taxable purpose)?

In a mutual arrangement, there must be complete identity between contributors and participants as a class, not individually, in the surplus of common funds. The members collectively contribute and collectively benefit from the common fund.

Where an organisation transacts with members collectively to produce a surplus of common funds, the activity is for a non-taxable purpose and is a mutual arrangement. For example, a bar is provided for the benefit of all members so the sales from members contribute to a surplus of common funds.

Mutuality ceases to apply when a member individually 'contributes' – say by paying rent – to secure a right over the use of a collectively owned asset (where that right is not available to members as a class), and the member benefits from the use of that asset for their own purposes. This breaks the complete identity between contributors and participants as a class in the common fund.

Where the organisation transacts with a member in this way, the activity is in the nature of a trade and is for a taxable purpose. For example, leasing a club facility to a member for their individual benefit in earning their assessable income is in the nature of trade and so the lease income is assessable to the club.

Example: Business nature

A NFP club owns two factory units. One is used for club activities and the other is rented to a club member. The member uses the unit to carry on a business.

The club's activity involving the leasing of a factory unit to one club member is considered to be of a business nature rather than a mutual arrangement. Income from this activity is assessable to the club.

Find out about:

- Meaning of member

Meaning of member

For the purposes of mutuality, we accept that a person is a member of an organisation where the person has done all of the following:

- applied for membership (which may entail being nominated and paying the appropriate nomination fee)
- been accepted by the organisation (for example, by the board of directors)
- paid the appropriate membership subscription.

Once a person has applied for membership and has been accepted by the organisation as a member, they are bound by the organisation's constitution and any rules or by–laws of the organisation.

Members need not have voting rights, but those who do not must be eligible to the other rights and privileges of membership. This would include knowing that they are a member, receiving the appropriate membership identification (for example, a card or badge) and receiving the organisation's newsletters and publications.

Various terms are used to describe members – for example, temporary, honorary, social and reciprocal members. As the meanings of these terms can differ between organisations, the use of a particular term does not determine whether a person is a member or non-member for tax purposes.

The general principle is that temporary, honorary or social members who have **not** been through the above membership process are visitors for tax purposes. This also applies to reciprocal members – that is, members of another organisation sharing reciprocal arrangements.

Non-members

A non-member is someone who is not a member of the organisation. Non-members include:

- temporary, honorary, social and reciprocal members who have not been through the above membership process and are treated as visitors
- members' guests – those visitors who accompany a member and are signed in by the member

- other visitors.

A visitor to the organisation includes anyone who is **not**:

- a member
- a child
- an employee of the organisation*
- engaged to work or provide services to the organisation.*

* This only applies while the person is on the organisation's premises in their capacity as an employee or contractor.

Example: Status of employee

An employee is not counted as a visitor when they are at the organisation performing their duties.

However, if the employee visits the organisation on a day off (and is not a member), they are counted as a visitor on that day.

Find out about:

- Categories of revenue and expenses

Categories of revenue and expenses

As a result of the mutuality principle, revenue and expenses fall within one of three categories for tax purposes.

Category	Revenue	Expenses
1	**Non-assessable** • Revenue from mutual dealings with members (for example, membership subscriptions). • Revenue that the tax law classifies as not assessable	**Non-deductible** • Expenses relating to members (for example, the cost of membership badges). • Expenses that the tax law specifies as non-deductible (for example, fines and

	(for example, donations received).	penalties imposed by an Australian law).
2	**Assessable** • Revenue from trading activities relating to non-members (for example, fees from hiring function rooms to the public). • Revenue from sources outside the organisation (for example, bank interest received). • Revenue that the tax law specifies as assessable (for example, payments received to fulfil a lease obligation to repair).	**Deductible** • Expenses relating to non-members (for example, the cost of running a function solely for non-members). • Expenses relating to fully assessable income (for example, fees for earning bank interest). • Expenses that the tax law allows without apportionment (for example, contributions to staff superannuation).
3	**Apportionable** Revenue from trading activities relating to members and non-members (for example, bar sales).	**Apportionable** Expenses of trading activities relating to members and non-members (for example, bar expenses).

Find out about:

- Steps for calculating taxable income

Steps for calculating taxable income

This flowchart shows how the three categories of revenue and expenses are used in calculating taxable income.

Step 1: Classify revenue

Classify the organisation's revenue into one of the following categories:

- non-assessable
- **assessable**
- apportionable

We explain how to do this in Classifying revenue.

Step 2: Classify expenses

Classify the organisation's expenses into one of the following categories:

- non-deductible
- **deductible**
- apportionable

We explain how to do this in Classifying expenses.

Step 3: Separate the apportionable items

Separate the apportionable revenue and expenses into:

- non-assessable and **assessable**
- non-deductible and **deductible**

We explain how to do this in Separating apportionable items.

Step 4: Calculate the taxable income

Total the assessable income (from steps 1 and 3) and the deductible expenses (from steps 2 and 3). Once you have done this, you can calculate the taxable income.

Taxable income = assessable income – deductions

We provide worked examples of how to calculate taxable income in Calculating taxable income.

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Classifying revenue

To calculate taxable income, an organisation needs to classify revenue as non-assessable, assessable or apportionable.

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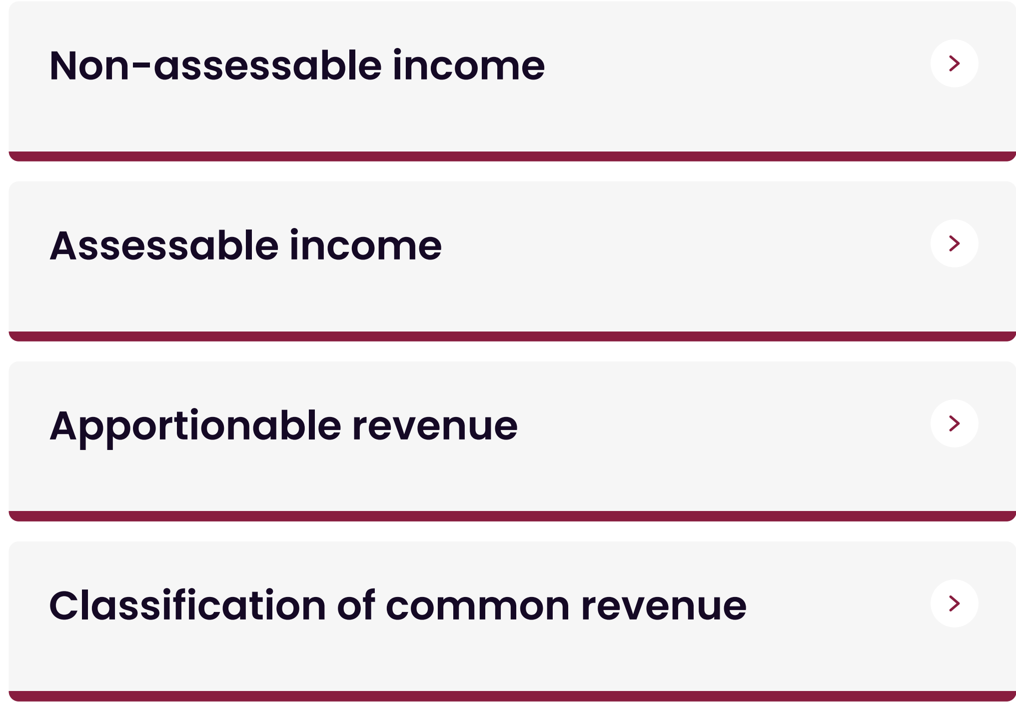
To calculate taxable income, an organisation will need to classify its revenue as non-assessable, assessable or apportionable.

Find out about:

- Non-assessable income
- Assessable income
- Apportionable revenue
- Classification of common revenue



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Non-assessable income

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[Mutual receipts](#)

[Revenue classified as non-assessable under tax law](#)

The following receipts are not assessable income for tax purposes:

- mutual receipts
- receipts classified under income tax law as non-assessable income, including exempt income and non-assessable, non-exempt income.

Mutual receipts

Receipts derived from mutual dealings with members of your organisation are called mutual receipts.

There is a misconception held by some that mutual receipts are exempt income. Mutual receipts are not exempt income.

For NFP organisations that are:

- not-for-profit companies – the income tax law classifies mutual receipts as non-assessable, non-exempt income.
- other taxable companies – case law has established that mutual receipts are not 'income'. To be 'exempt income' under the income tax law, an amount must first be considered income. If an amount is not income in the first place, it cannot be exempt income.

The result of this is that mutual receipts are not subject to income tax because they are not assessable income – not because they are exempt income.

Mutual receipts include:

- member subscriptions and levies
- fees from members using the organisation's facilities (for example, gyms, pools and squash courts)
- drinks and food sold by the organisation to members
- amounts members pay to attend dinners, parties, dances or social functions arranged by the organisation

- amounts members pay to attend a talk, workshop or presentation arranged by the organisation
- the sale of items, such as souvenirs, to members.

Example: Non-assessable – revenue from mutual arrangement

A NFP club arranges for clothing to be made to its own design once or twice a year. The clothing is sold to the members. Not all members choose to purchase the clothing. Sales are put into the club's general funds, which are used to pay operating costs.

The sale of the clothing to members is a mutual arrangement so the proceeds do not form part of the assessable income of the club. The fact that not all members purchase the clothing is not crucial to the mutuality principle.

In the event an organisation sells items to members at a profit, the revenue would also be classified as mutual receipts.

Revenue classified as non-assessable under tax law

Income tax law classifies the following revenue as non-assessable – any amount that is:

- **not** ordinary income (income other than from rendering personal services, from property and from carrying on trading activities)
- **not** an amount specified under income tax law as income.

Example: Non-assessable – donations

A NFP society receives donations from both members and non-members.

The donations are non-assessable income regardless of who makes them. Donations are given voluntarily and are not income from rendering personal services, income from property or

income from the carrying on of trading activities. Donations are also not specified as income under income tax law.

Non-assessable income also includes an amount specified under income tax law as:

- non-assessable, non-exempt income (for example, mutual receipts of not-for-profit companies)
- exempt income (for example, the annual total of $300 or less of non-cash benefits – property or services – received in payment for goods and services provided by the organisation).

Example: Exempt – non-cash benefits – annual total of $300

A non-member hires a NFP club's function room for $300 and pays the club by giving it office equipment worth $300. This was the only non-cash benefit the club received for the income year.

As the annual total of non-cash benefits the club received for the year was $300, this revenue is exempt income.

Find out about:

- Assessable income
- Apportionable revenue
- Classification of common revenue

QC 23099

Assessable income

Last updated 4 December 2018

Many amounts received by your organisation will be assessable income. Assessable income is any amount that is:

- ordinary income (income from rendering personal services, income from property and income from carrying on trading activities)

- an amount specified under income tax law as income
- **not** an amount specified under income tax law as exempt income or non-assessable, non-exempt income.

Assessable income includes receipts from trading with non-members and income from sources outside the organisation.

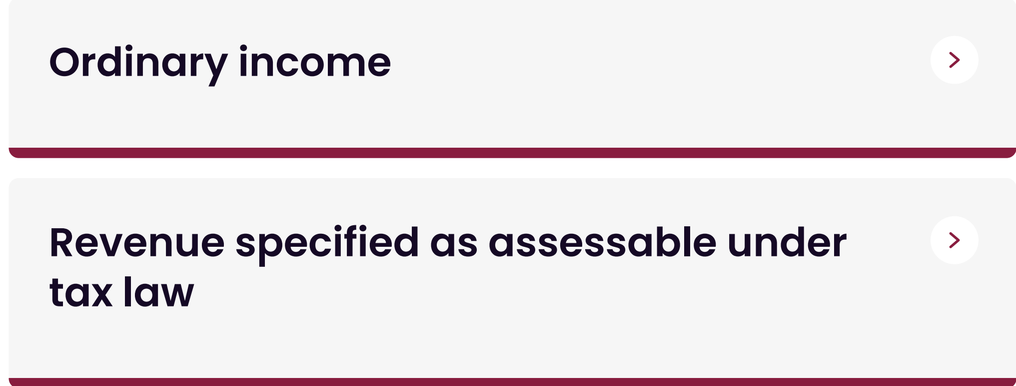
Receipts that are assessable income include:

- bank interest
- dividends and other income from investments (for example, interest from term deposits and rent from an investment property)
- the annual total of more than $300 of non-cash benefits (property or services) received in payment for goods and services provided by the organisation
- fees received for advertising in the organisation's magazine
- employee contributions that reduce the organisation's fringe benefits tax (FBT) liability
- sponsorships and certain grants
- proceeds from fundraising drives to the public (for example, the sale of lamingtons, cakes or chocolates)
- food and drinks sold to non-members visiting the organisation
- fees received for hiring out the organisation's hall, facilities or equipment to the public
- fees received for the organisation's catering services at functions for the public
- commissions received from vending machines
- amounts non-members pay to attend dinners, parties, dances or social functions arranged by the organisation
- amounts non-members pay to attend a talk, presentation or workshop arranged by the organisation
- non-member proceeds from a raffle
- proceeds from selling souvenirs to non-members

- gaming income derived by the organisation from non-members where the organisation owns and operates the gaming machines
- gaming income derived by the organisation under arrangements entered into with an external gaming or Keno operator.

Find out about:

- Income and deductions for business – for more examples of assessable income.
- Other issues – for the disposal of an asset may result in a capital gain or loss to an organisation.
- Classifying expenses – if your organisation uses a depreciable asset for a taxable purpose, the disposal of the asset may also result in an amount to be treated as assessable income or a deduction.



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Ordinary income

Last updated 4 December 2018

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Find out about:

- Non-mutual dealings with members
- Arrangements with external parties
- Gaming machines owned by NFP organisations
- Coin-operated machines
- Employee contributions towards fringe benefits
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- Rebates
- 'GST rebate' on gaming machines
- Hotels, motels, gyms, squash courts, swimming pools

Non-mutual dealings with members

Not all dealings involving members are mutual dealings.

Although receipts may be received from a member, if they are from activities that go beyond a mutual arrangement and are in the nature of trade, the receipts are assessable income.

Example: Assessable – lease payments from member

A NFP club leases part of its premises to a member so the member can operate a gym business.

This activity is of a business nature rather than a mutual arrangement. As such, the lease payments from the member to the club will form part of the club's assessable income.

See also:

- Nature of trade

Arrangements with external parties

NFP organisations often enter into arrangements with external parties under which the external party conducts or provides particular operations on the organisation's premises. This may include the operation of gaming machines.

If an organisation enters into an arrangement with an external gaming operator under which gaming machines are installed on the organisation's premises, the gaming income is derived by the gaming operator from the players, according to the contractual arrangements and relevant state legislation.

The amounts paid or allowed to an organisation by the gaming operator under this arrangement are derived by the organisation from the external gaming operator and not from the members and non-members.

Therefore, such income is fully assessable to the organisation because it is derived from an external source and is not subject to the principle of mutuality.

Other arrangements your organisation may have with external parties include Keno, TAB type facilities, catering, entertainment activities and vending machines.

Under these arrangements, amounts paid or allowed to your organisation by the external operators, such as the licensees of the Keno game in respect of Keno, are not derived from your organisation's members and are, therefore, assessable.

We consider such amounts to be similar to the insurance commissions which have been held not to be mutual receipts by the courts. As such,

organisations should **not** apply their non-member percentage to these or other similar types of income in calculating their assessable income.

Examples – External party arrangements

Example 1: Assessable – TAB, Keno and vending machines

The Cordovan Club has a TAB outlet, Keno and food and drink vending machines on its premises. All are provided through external operators.

The amounts received from the external operators are not mutual receipts and are assessable income of the club. These amounts should not be reduced by the application of the non-member percentage in calculating the club's assessable income.

Example 2: Assessable – restaurant and gym

Under an arrangement with the Chartreuse Club, an independent restaurateur operates a restaurant on the club's premises. Similarly, a gymnasium is also operated by an external party on the club's premises.

The income received by the club from these business operators is derived from an external source and is assessable.

Example 3: Assessable – gaming machines and entertainment

Gaming machines are installed on the premises of the Goldfields Country Club by a gaming operator. The club derives income from the machines under a contract entered into with that gaming operator. The club also engages an entertainment operator to provide entertainment to attract members and visitors (so that they will play the gaming machines) and receives a fee from the operator.

The income received by the club from these operations is assessable.

Gaming machines owned by NFP organisations

Under the principle of mutuality, you apportion the revenue from gaming machines where the machines are:

- owned or leased by your organisation
- operated by your organisation
- played by members and non-members.

Coin-operated machines

Coin-operated machines include vending machines, payphones, amusement machines and pool tables. NFP organisations may own or rent these machines or provide them under an arrangement with an external party.

The revenue from the machines is apportioned if:

- the organisation owns or rents the machines
- the organisation is entitled to collect the monies as its income
- members and non-members use the machines.

If the machines are under an arrangement with an external party and the organisation receives a commission, then the commission is fully assessable income.

Employee contributions towards fringe benefits

If a NFP organisation is an employer, an employee contribution generally refers to the amount of consideration paid to it or a provider by an employee in respect of a fringe benefit – for example, an association provides its employee with a car and the employee pays the association an amount towards the costs of petrol and oil. The contribution is reduced by the amount of any reimbursement paid by the organisation to the employee in respect of that consideration.

If your organisation receives employee contributions, they are assessable income to it as the employer. As a general rule, the costs incurred by an organisation in providing fringe benefits are income tax deductible.

The principle of mutuality does not apply because the employee contribution is regarded as an external party transaction where the

employee is assisting the organisation with an FBT liability.

Tips from customers

If your NFP organisation operates a trading activity such as a restaurant, bistro or bar, or holds a function, it may receive tips (or gratuities) from customers.

If the tips are voluntarily paid by customers and your organisation distributes all the tips to its employees or contractors, the tips are not assessable income to the organisation. However, if your organisation keeps all or some of the tips, the retained amounts are assessable income.

If the tips are non-voluntarily paid by customers (for example, for a pre-set amount, a surcharge or a service charge), the tips are assessable income to the organisation.

The principle of mutuality applies to the retained voluntary tips and non-voluntary tips where the trading activity or function is for members only (mutual receipts), or for member and non-member customers (apportionable revenue). Mutuality would not apply if the trading activity or function is for non-members only.

Sponsorships

Under a sponsorship arrangement, when an organisation undertakes a fundraising activity it often receives support in the form of money. In return, it may provide such things as advertising, signage or naming rights or some other type of benefit of value.

This means that the sponsor receives something of value in return for the sponsorship, so the sponsorship payment is not a gift. The payment is fully assessable because of the commercial nature of the sponsorship arrangement.

Grants

Often organisations secure funding from government bodies and the private sector. The funding can be in the form of grants.

Government industry payments – in the form of grants, bounties, subsidies and rebates – are from federal, state, territory or local

governments or government agencies to help recipients to continue, commence or cease business.

Regardless of where they are from, grants that help an organisation continue its income-producing activities are assessable income at the time they are derived (that is, 'taken to be received' for income tax purposes). A grant may be derived in the same income year as it is paid or it may be derived in a later income year.

Conditional grants are grants that must be repaid unless the recipient meets agreed conditions within a specified period. Once the conditions of the grant are satisfied, the grant becomes unconditional and is assessable income at that time, not when the grant was paid. This means that the grant is derived as assessable income in the year it becomes unconditional.

Example: Assessable – unconditional and fully met conditional grants

The Terracotta Club receives an unconditional grant of $5,000 to fund certain operating costs to help with its income-producing activities in the 2015–16 year. The $5,000 grant is derived as assessable income in the income year it is received – that is, the 2015–16 year because the grant is unconditional.

If the Terracotta Club receives the $5,000 as a conditional grant in the 2015–16 year, the grant is not derived until the conditions are met. In this case, the required conditions are met in the 2016–17 income year, so the $5,000 becomes assessable in that year.

If in the 2015–16 year the club instead receives a $10,000 conditional grant that is paid in two instalments of $5,000, each instalment is derived in the income year the club meets the conditions for that instalment. In this case:

- the conditions for the first instalment are met in the 2015–16 income year and so the instalment is assessable in that year
- the conditions for the second instalment are met in the 2016–17 income year and so the instalment is assessable in that year.

If an organisation fails to meet the terms of a conditional grant and is required to repay the whole or part of the grant, the amount that is

repaid is not assessable income in any year. Because the amount that was repaid is not assessable income, it cannot be claimed as a deduction. If, however, the organisation has used grant monies, prior to it being repaid, to incur expenses in earning its assessable income, the organisation can claim those expenses as a deduction.

Example: Not assessable – repaying conditional grant

If the Terracotta Club fails to meet the terms of the conditional grant of $5,000 and is required to repay it, the $5,000 is not derived as assessable income in any year.

If the club fails to meet the terms for the last $5,000 instalment of the $10,000 conditional grant, that instalment is not derived as assessable income in any year.

Rebates

Rebates can be either government industry payments or from private organisations such as wholesalers.

A rebate from a federal, state, territory or local government or government agency is a payment to offset a liability – that is, a payment to assist with operating costs or liabilities. A tax rebate is provided under a federal, state or territory law to organisations that are entitled to it. Where the rebate is received to offset a tax liability that arises because of business operations, the rebate is ordinary income and is assessable in the income year it is received.

The principle of mutuality does not apply to these rebates. They do not require apportionment because the rebates are the result of an external party arrangement between the government body and the organisation.

Example: Assessable – ClubGRANTS tax rebate

Under the ClubGRANTS scheme (previously the Community Development and Support Expenditure (CDSE) Scheme) in New South Wales (NSW), eligible clubs may receive a tax rebate on their annual gaming machine tax (that is, a rebate of up to 1.85%

of their annual gaming machine profits over $1 million) if they have expended an equivalent amount on eligible community programs and services.

The tax rebate is provided under the state *Gaming Machine Tax Act 2001* and clubs are entitled to it if they have annual gaming machine profits over $1 million, they expend on eligible community programs and services, and they provide evidence to the Independent Liquor and Gaming Authority of those payments.

The rebate is a payment to offset the annual gaming machine tax liability that these clubs are required to pay under state law. Therefore, the rebate is assessable income in the income tax year it is received.

Rebates may also be offered by private organisations. For example, retailers may be entitled to a volume rebate when they make qualifying purchases from a wholesaler. A rebate from a private organisation is considered an arrangement with an external party and so is fully assessable income to the entity that is entitled to the rebate.

In the case where an organisation acts as an agent for its members, receives a rebate on behalf of its members and then passes on the rebate to its members, the rebate is not assessable income to the organisation.

Example: Not–assessable volume rebates – agent for members

A NFP retailer association receives volume rebates from a wholesaler on behalf of its retailer members. The members are entitled to the rebates because of qualifying purchases they made from the wholesaler.

The association spends part of the rebates on administrative overheads and on activities benefiting members individually or collectively. The remaining balance of the rebates is then paid to the members according to their share of purchases from the wholesaler.

The rebates are not assessable income to the association. This is because the association is not entitled to the rebates and is only

acting as an agent for its members. Also, the expenses related to the rebates are not deductible to the organisation. It is the members who are entitled to the rebates that need to include the rebates as assessable income and expenses as deductions.

See also:

- TR 2004/5 *Income tax: taxation treatment of volume rebates paid to a retailer association*

GST rebate on gaming machines

In NSW, the Office of State Revenue (OSR) pays a 'GST rebate' to clubs with gaming machines at the end of each quarter to compensate for the impact of the goods and services tax (GST). The payment is currently under a memorandum of understanding between the NSW Government and Clubs NSW.

For income tax purposes, the GST rebate payments received in a club's income tax year are assessable income. The payments are not a reduction in a club's GST liability on its gaming machine revenue because the GST law does not include a rebate on GST. The GST rebate paid by the OSR is a government industry payment to help compensate clubs for their GST liability.

The principle of mutuality does not apply to the GST rebate payments. They do not require apportionment because the payments from the OSR are the result of an external party arrangement (that is, an agreement between the OSR and Clubs NSW).

Hotels, motels, gyms, squash courts, swimming pools

Taxable NFP organisations may have hotels, motels, gyms, squash courts, swimming pools or other such facilities.

Where an organisation leases out a facility it owns to an external operator, the lease revenue is fully assessable regardless of who uses the facility.

Example: Assessable motel lease payments

A NFP club owns a motel and leases it out to a motel operator. The lease revenue received by the club is assessable, even though guests at the motel may include club members.

Similarly, where an organisation owns a facility and operates it purely as a commercial investment to generate income and the facility does not form part of the organisation's facilities for its members, the revenue from the facility is fully assessable income.

Example: Assessable income from hotel owned by club

A NFP sporting club owns and operates a hotel purely as an investment to earn income. The hotel is not used in pursuing the club's purposes for which it was established. The income the club receives from the hotel is assessable, even though guests at the hotel may include club members.

Where an organisation sets up a facility for the benefit of its members but allows non-members to use it, the revenue needs to be apportioned.

In the case where an organisation operates a facility for its members only, the revenue, if any, is classified as mutual receipts.

QC 23099

Revenue specified as assessable under tax law

Last updated 4 December 2018

Revenue specified under income tax law as assessable income includes:

- interest on any overpayment of federal tax
- amounts received from a lessee or former lessee for failing to comply with a lease obligation to make repairs to the premises you

leased to them to run a business.

Example: Assessable amount for failing to comply with lease

The Viridian Club leases part of its premises for two years to an individual to operate a gym. The lease contract includes an obligation for the gym operator to repair and maintain the leased premises.

After one year, the leased premises needed some repair work. When the lease ended, the club charged the gym operator an amount agreed under the contract for failing to comply with his obligation to carry out the repairs.

The agreed amount the club received from the gym operator is assessable income.

Find out about:

- Apportionable revenue
- Classification of common revenue

QC 23099

Apportionable revenue

Last updated 4 December 2018

Apportionable revenue is revenue that comprises both assessable and non-assessable income.

This revenue needs to be separated using a practical and suitable method.

Revenue that may need to be apportioned includes:

- drinks sold at the bar to members and non-members
- meals sold to members and non-members at an organisation's restaurant/bistro

- fees from members and non-members using the organisation's facilities, such as gyms, pools and squash courts
- amounts members and non-members pay to attend dinners, parties, dances or social functions arranged by the organisation
- amounts members and non-members pay to attend a talk, workshop or presentation arranged by the organisation
- member and non-member proceeds from a raffle
- gaming income derived by an organisation from members and non-members where the organisation owns and operates the gaming machines.

Find out about:

- Classification of common revenue
- Separating apportionable items

QC 23099

Classification of common revenue

Last updated 4 December 2018

The classification of your organisation's revenue will depend on its particular facts and circumstances.

Example: Bar sales

Bar sales are shown as apportionable on the basis the bar is available to both members and non-members. If, however, the bar is only available to:

- non-members – the sales are fully assessable
- members – the sales are non-assessable.

The table below provides general guidance only.

Description	Non-assessable	Assessable	Apportiona
Accommodation takings (motel, hotel)			X
Admission fees			X
Advertising income		X	
Amusement machine commissions		X	
Amusement machine income (owned)			X
Bar sales			X
Competition fees	X		
Donations	X		
Employee contributions that reduce FBT liability		X	
Entertainment income			X
Gaming machine commissions		X	
Gaming machine income (owned or leased)			X
Gaming machine tax rebate		X	

(ClubGRANTS scheme) – NSW			
Government industry payments		X	
Grants		X	
GST rebate payment – NSW		X	
Gym fees			X
Hire of equipment/videos			X
Hire of facilities for functions			X
Insurance commissions		X	
Investment income – dividends		X	
Investment income – interest		X	
Investment income – other description		X	
Investment income – rental income		X	
Investment income – trust distributions		X	
Keno commissions		X	

Member access to facilities	X		
Membership levies	X		
Membership subscriptions	X		
Non-cash benefits received (annual total of $300 or less)	X		
Non-cash benefits received (annual total of more than $300)		X	
Payphone commissions or agreed amount		X	
Payphone income (owned or rented)			X
Pool tables (owned)			X
Profit on sale of asset (as capital gain)		X	
Raffles and bingo			X
Rebates from private organisations		X	
Rental income from members		X	
Restaurant/bistro sales			X

Revenue from visitors and members' guests		X	
Sale of merchandise			X
Scratch lotteries		X	
Sponsorship income		X	
TAB commissions		X	
Tips (non–voluntary) from customers			X
Tips (voluntary) from customers (if all paid to employees)	X		
Vending machine commissions		X	

Find out about:

- Classifying expenses
- Calculating taxable income for examples of classifying revenue

See also:

- **Record keeping** for what records to keep for revenue items

QC 23099

Classifying expenses

To calculate taxable income, an organisation needs to classify expenses as non-deductible, deductible or apportionable.

Last updated 4 December 2018

To calculate taxable income, an organisation will need to classify its expenses as non-deductible, deductible or apportionable.

Find out about:

- Non-deductible expenses
- Deductible expenses
- Apportionable expenses
- Classification of common expenses

QC 23099

Non-deductible expenses

Last updated 4 December 2018

On this page

Expenses used to get mutual receipts

> [Expenses classified as non-deductible under tax law]

The following expenses are not deductible for tax purposes:

- expenses used to get mutual receipts
- expenses classified under income tax law as non-deductible.

Expenses used to get mutual receipts

Generally, where an organisation has non-assessable income, the expenses it incurs to get that revenue will not be deductible.

Mutual receipts are not assessable income. Therefore, costs incurred to get mutual receipts are not deductible. Also, under the mutuality principle, where other expenses are incurred when dealing with members, these costs cannot be claimed as deductions.

Expenses used to get mutual receipts include the costs of:

- collecting membership subscriptions
- increasing membership
- member loyalty schemes
- running member-only facilities such as gyms, pools and squash courts
- drinks sold at the bar to members
- food and beverages sold to members
- running member-only functions (for example, dinners, parties, dances, presentations and workshops).

Other expenses incurred when dealing with members include the costs of:

- running an annual general meeting
- producing a member-only magazine
- scholarships and awards for members
- members' discounts
- members' badges
- members' birthdays

- wreaths, flowers and hospital visits to members.

Not all dealings involving members are mutual dealings.

Where an organisation and a member enter into a transaction that is in the nature of trade, the expenses incurred by the organisation in relation to the transaction may be deductible.

Example: Deductible – expenses related to lease payments from member

A NFP club leases part of its premises to a member so the member can operate a gym business.

Expenses the club incurs in relation to the lease income may be deductible.

See also:

- Nature of trade

Expenses classified as non-deductible under tax law

Income tax law classifies what expenses are non-deductible.

These expenses are losses or outgoings that are either:

- not incurred in earning assessable income
- incurred in earning non-assessable income
- capital or of a capital nature
- of a private or domestic nature
- incurred in earning exempt income or non-assessable, non-exempt income
- specified under income tax law as non-deductible.

Example: Non-deductible – expenses related to benefit for members

A NFP association has paid various awards and scholarships for the benefit of its members. The funds to pay these amounts have been derived from interest earned from the investment of bequests from members. The interest earned is part of the association's assessable income.

The scholarship and award expenses are not deductible, as they are incurred when dealing with members. This does not change even when the expenses are paid out of the association's assessable income. The costs of the scholarships and awards are not necessary in directly earning the interest income from the investment of moneys bequeathed by members.

Expenses specified under income tax law as non-deductible include:

- fines and penalties imposed under an Australian or foreign law, or ordered by the courts
- borrowing expenses related to a loan that was taken out to pay a federal tax liability
- fees for advice on the operation of a federal tax law (except where the advice is given by a registered tax agent or legal practitioner)
- provisions for employees' long service leave, annual leave, sick leave or other leave (except where the organisation actually paid these amounts to an employee).

Find out about:

- Deductible expenses
- Apportionable expenses
- Classification of common expenses

QC 23099

Deductible expenses

Last updated 4 December 2018

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Tips paid to employees

Bad debts

Sponsorship costs

Gaming expenses

Small business entity concessions

Prepaid expenses

Depreciating assets/decline in value

Investment expenses

Deductions specified under income tax law

Tax-deductible gifts

Professional association subscriptions

Rates and land taxes

Generally, deductions are operating expenses that are incurred in earning an organisation's assessable income. Expenses that are deductible include:

- costs of running a function solely for non-members
- costs of running a purely commercial trading activity, including employees' salary and wages
- expenses for advertising trading activities to non-members
- fees for earning bank interest, dividends or investment income
- costs of fundraising drives to the public (for example, buying promotional buttons sold to the public)
- expenses related to gaming income derived by an organisation from non-members where the organisation owns or leases, and operates, the gaming machines
- expenses related to gaming income derived by an organisation under arrangements entered into with an external gaming or Keno operator.

Find out about:

- Tips paid to employees
- Bad debts
- Sponsorship costs
- Gaming expenses
- Small business entity concessions
- Prepaid expenses
- Depreciating expenses/decline in value
- Investment expenses
- Deductions specified under income tax law
- Tax-deductible gifts
- Professional association subscriptions
- Rates and land tax

See also:

- Income and deductions for business

Tips paid to employees

If your organisation receives non-voluntary tips from customers (for example, for a pre-set amount, a surcharge or a service charge) and pays these tips to its employees or contractors, it can usually claim a deduction for the amount it paid.

The mutuality principle applies to the amount paid to employees or contractors where the customers are at a trading activity or function for members only (non-deductible expenses), or for both members and non-members (apportionable expenses). If the trading activity or function is for non-members only, the amount paid is fully deductible to the organisation.

However, if your organisation receives voluntary tips and pays all the tips to its employees or contractors, it cannot claim a deduction for the amount it paid because the tips are not assessable income to the organisation.

Bad debts

A NFP organisation can deduct a debt, or part of a debt, that it writes off as bad in an income year if the amount was included in the assessable income of the organisation for that year or for an earlier year.

Where the bad debt, or part of the debt, is related to mutual receipts, it is not deductible.

Sponsorship costs

If your organisation receives a payment for providing such things as advertising space, signage or naming rights, the costs incurred in earning this income may be deductible in full.

Your organisation's costs to sponsor others or promote itself may need to be apportioned to the extent that the sponsorship or promotion is incurred in earning its assessable income.

Advertising to attract membership is not deductible. Sponsorship of a member's interests will generally not be deductible.

Gaming expenses

If your organisation enters into arrangements with external parties under which the external party conducts or provides particular operations on your organisation's premises – including the operation of gaming machines, Keno and TAB facilities – the income from the external operators is fully assessable. The expenses your organisation incurs in earning this income are fully deductible, including gaming tax.

However, under the principle of mutuality, apportionment of gaming expenses will be necessary if gaming machines are:

- owned or leased by the organisation
- operated by the organisation
- played by members and non-members.

For example, state tax (including 'tax shortfalls') on a club's gaming machine revenue is apportioned so that only that part of the tax (or shortfall) that relates to the non-member revenue is deductible.

Some state and territory gaming laws require organisations with gaming machines to make or record contributions to community purposes, such as:

- paying a community or gambling levy
- preparing community contribution statements
- making community contributions up to a required minimum.

Related expenditure is apportioned where the principle of mutuality applies. An exception is where the expenditure on community contributions is required to claim a rebate of gaming machine tax. As the rebate is fully assessable to the organisation, the expenditure is not subject to mutuality.

Regardless of whether mutuality applies, a deduction for expenditure on community contributions **cannot** include:

- notional amounts claimed for providing rooms or volunteers to other community groups – only actual costs may be deductible
- claims for capital expenditure
- amounts already claimed as a tax deduction.

A contribution to a deductible gift recipient (DGR) made to meet an organisation's minimum community contribution is not considered a tax-deductible gift.

Example 1: Deductible – ClubGRANTS expenditure

An eligible club participates in the ClubGRANTS scheme (previously the Community Development and Support Expenditure (CDSE) Scheme) in NSW. The scheme provides a tax rebate of up to 1.85% of the club's annual gaming machine profits over $1 million. The rebate is fully assessable under income tax law. To receive the maximum rebate available, the club must expend eligible ClubGRANTS–related expenditure of at least $210,000.

The club's actual ClubGRANTS–related expenditure for the year was $220,000 and comprised:

- $219,000 eligible expenditure on community projects and services (which included $10,000 to DGRs)
- $1,000 ClubGRANTS local committee expenses.

No capital or in-kind (notional) expenditure was made.

Under state law, the club's actual ClubGRANTS–related expenditure of $220,000 is $10,000 above the required expenditure to claim the maximum rebate.

For income tax purposes, the club's tax deduction for its ClubGRANTS–related expenditure is:

$219,000 + $1,000 = $220,000.

The club's required expenditure of $210,000 is fully deductible under income tax law as it is incurred in earning the rebate as assessable income. As its $10,000 payments to DGRs are extra to the required expenditure, the club may claim the payments to the DGRs as income tax deductible gifts.

Example 2: Deductible – preparing annual community benefit statements

A NFP club in Queensland is required by the state's gaming law to prepare and lodge an annual community benefit statement. The costs of preparing the statement are deductible to the extent of the non-member revenue from its gaming machines.

Where the club fails to lodge a statement and is subject to a penalty under the gaming law, the penalty is not a deduction under the income tax law.

As there is no minimum requirement for community benefit payments under a state gaming law, the club's payments to DGRs would be tax-deductible gifts.

Small business entity concessions

If your organisation is a small business entity, it may be eligible for various concessions, including:

- immediate deduction for certain prepaid business expenses
- simplified depreciation rules.

Find out about:

- Small business entity
- Am I eligible for the small business entity concessions?

Prepaid expenses

Prepaid expenses are expenditure that is incurred for things done (in whole or in part) in a later income year. Where prepaid expenses are incurred in earning mutual receipts and assessable income, the expenses need to be apportioned under the principle of mutuality.

Generally, a prepaid expense is deductible over the eligible service period, or 10 years if that is less, rather than being immediately deductible.

The eligible service period:

- starts on the day the thing under an agreement begins to be done or on the day the expenditure is incurred, whichever is the later
- finishes at the end of the last day the thing under the agreement ceases to be done or 10 years, whichever is the earlier.

However, a prepaid expense may be immediately deductible if either:

- it is excluded expenditure
- the 12-month rule applies.

Excluded expenditure includes:

- amounts of less than $1,000
- amounts required to be incurred by a court order or federal, state or territory law
- payments of salary or wages (under a contract of service)
- amounts that are capital, private or domestic in nature.

Example: Deductible over service period – prepaid audit fees

The Carnelian Club is required under the Corporations Act to have its financial reports audited each financial year. It is not a 'small business entity'.

On 1 June 2015, the club contracts with an accounting firm to provide audit services for the following 12-months. Under the terms of the contract, the club is required to prepay the full audit fee of $10,000.

Although the club is legally required to audit its accounts, there are no statutory fees required to be charged nor are the fees paid to a government body. The prepaid audit fees are not 'excluded expenditure' and the club is not entitled to an immediate deduction for the $10,000 in the 2015–16 income year. The club must apportion the deduction over the period in which the services are provided. It will also need to apportion the prepaid audit fees if it is earning both mutual receipts and assessable income.

If your organisation is a small business entity, it may be entitled to an immediate deduction under the **12-month rule** if the prepaid expenses are incurred for an eligible service period not exceeding 12 months and the eligible service period ends in the income year following the year the expenses were incurred. If the eligible service period is more than 12 months, or ends after the next income year, you must apportion the deduction for the expenses over the eligible service period or 10 years, whichever is less.

Find out about:

- Small business entity
- Deductions for prepaid expenses

Depreciating assets/decline in value

Your organisation may be able to claim a deduction for the decline in value of its depreciating assets. A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used. Examples of these assets include computers, cars, furniture and equipment.

To work out the decline in value of a depreciating asset, use either the prime cost or diminishing value method based on the effective life of the asset.

Generally, an amount for the decline in value of a depreciating asset is deducted to the extent the asset is used for a taxable purpose. A

taxable purpose includes the purpose of producing assessable income.

A membership-based organisation can have a depreciating asset which, at some time when it was held, had been used or installed ready for use for a purpose other than a taxable purpose.

Under the principle of mutuality, receipts from mutual dealings with members are not assessable income. As a result, the use of depreciating assets in activities from which mutual receipts arise is not use for a taxable purpose.

Therefore, if a depreciating asset is used in part for producing assessable income, or used for part of the income year, your organisation cannot claim a deduction for the full amount.

Example: Apportionable decline in value – gaming machines owned by club

A NFP club owns poker machines that are played by members and non-members. The club works out the decline in value of each poker machine for the income year by using the method it chose based on the seven years effective life of each machine. The club then apportions the decline in value amount by the machines' non-member usage to work out the deduction for the year.

If your organisation is a small business entity, you may choose to calculate deductions for its depreciating assets using the simplified depreciation rules.

Your organisation may need to calculate a balancing adjustment amount for an asset to include in its assessable income or to claim as a deduction when:

- it stops holding it – for example, if the asset is sold, lost or destroyed
- it stops using it and expects never to use it again
- it stops having it installed ready for use and it expects never to install it ready for use
- it has not used it and decides never to use it

- a change occurs in the holding or interests in an asset which was or is to become a partnership asset.

You work out the balancing adjustment amount by comparing the asset's termination value (such as its sale proceeds) and its adjustable value at the time of the balancing adjustment event.

If the termination value is greater than the adjustable value, you include the excess in your organisation's assessable income. If the termination value is less than the adjustable value, you can deduct the difference.

Example: Balancing adjustment amount

The Ambrose Society purchased a cabinet that it held for two years and used wholly for a taxable non-member purpose. It then sold the cabinet for $1,300. Its adjustable value at the time was $1,200.

As the termination value of $1,300 is greater than the adjustable value of the cabinet at the time of its sale, the difference of $100 is included in assessable income.

If it sold the cabinet for $1,000, the termination value would be less than the adjustable value of the cabinet at the time of its sale ($1,200). The difference of $200 would be a deductible balancing adjustment amount.

See also:

- Decline in value calculator
- Guide to depreciating assets

Investment expenses

Generally, costs incurred in earning investment income – such as rental income, interest, dividends and trust distributions – are deductible. Expenses may be for protecting and maintaining investments and can include rent collection fees, interest charged on money borrowed for investment, bookkeeping and secretarial expenses, audit fees, management fees and office expenses.

Where costs incurred relate to both assessable (investment income) and non-assessable income (mutual receipts), those expenses need to be apportioned.

Example: Deductible expenses related to rental income

The Gamboge Society mainly derives mutual receipts. The only non-member income it earns is investment income in the form of rent and interest. The society incurs various expenses including telephone, electricity, accounting and audit fees, management fees, insurance, rent collection fees and office expenses.

Only the rent collection fees are specifically related to the rental income and so are fully deductible. The other expenses need to be apportioned as they cannot be identified as relating to either the mutual receipts or the investment income.

Deductions specified under income tax law

Under the income tax law, there are some deductions that do not have to be incurred in deriving assessable income and the mutuality principle does not apply to them. They are:

- tax-deductible gifts
- the ATO fee to value property over $5,000 for gift deductibility purposes
- the first $42 of subscription fees to professional associations
- expenses for managing the organisation's tax affairs (for example, the costs of using a tax agent to prepare the organisation's tax return or business activity statement)
- the general interest charge or shortfall interest charge related to federal tax
- superannuation contributions for employees
- rates and land taxes on a NFP organisation's premises wholly used to produce mutual receipts and/or assessable income.

Some deductions have limits on how much your organisation can deduct. These limits are discussed in the following sections.

Tax-deductible gifts

For your organisation to claim a tax deduction for a donation it makes, the payment must be all of the following:

- made to a deductible gift recipient (DGR)
- truly a gift
- a gift of money or a certain type of property
- complying with any relevant gift conditions.

Payments to DGRs that are not gifts, cannot be claimed as a gift deduction. Examples of what you can not claim include:

- a payment for services supplied by the DGR
- a payment to a DGR made to meet an organisation's minimum required community contribution under a state or territory gaming law.

A deduction for a gift cannot add to or create a tax loss. However, your organisation can elect to spread out deductions for certain gifts over a period of up to five years.

See also:

- Tax-deductible gifts

Professional association subscriptions

Under income tax law, if your NFP organisation pays to be a member of a professional association it can deduct the first $42 of the subscription fee each year. This is regardless of whether your organisation incurs the expense in earning its assessable income.

Alternatively, under general principles, your organisation can claim a deduction if the subscription fee is incurred in earning its assessable income. However, the mutuality principle would apply. If the application of mutuality reduces the deductible amount of the subscription fee below $42, you can choose to claim the income tax law deduction of the first $42.

Example: Deductible subscription fee – first $42 or non-member portion

The Amaranth Club pays a $350 annual subscription to a licensed clubs association. In turn, the club receives information from the association on how to promote itself better. This helps the club earn its member and non-member revenue.

The club can choose to claim the first $42 of the subscription fee or to claim the non-member portion of the subscription fee.

If the club's non-member percentage is 30%, the club may choose to claim the non-member portion of the fee as a deduction – that is, $105 ($350 × 30%).

If, however, the club's non-member percentage is 10%, the non-member portion of the fee is $35 ($350 × 10%). In this situation the club may choose instead to deduct the first $42 of the subscription fee.

Rates and land taxes

Your organisation can claim a deduction for the annual rates (that includes council, water, sewerage and drainage rates) and any land tax imposed by a state or territory law on its premises if the premises is wholly used for producing mutual receipts or assessable income or both.

Your organisation cannot claim a deduction if the premises, or part of the premises, it owns is not used for producing any revenue.

Find out about:

- Apportionable expenses
- Classification of common expenses

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Apportionable expenses

Last updated 4 December 2018

Expenses related to earning both assessable income and non-assessable income need to be apportioned by using a practical and suitable method.

Expenses that may require apportionment include:

- printing
- postage
- stationery
- telephone
- electricity
- bank charges
- rent
- insurance
- audit fees and general accounting fees
- subscription fees to professional associations
- bad debts that relate to member and non-member revenue
- the decline in value on depreciating assets that are used to earn revenue from members and non-members
- directors' fees
- honoraria paid to volunteers who help the organisation with activities that relate to members and non-members
- employees' salary and wages where trading activities are for members and non-members
- costs of drinks sold at the bar to members and non-members
- costs of meals and beverages sold to members and non-members
- running costs of facilities used by members and non-members
- costs of dinners, parties, dances or social functions arranged by the organisation where members and non-members pay to attend
- expenses relating to a talk, workshop or presentation arranged by the organisation where members and non-members pay to attend

- costs of a raffle sold to members and non-members
- expenses related to gaming income derived by an organisation from members and non-members where it owns or leases, and operates the gaming machines.

Accounting and audit fees

Accounting fees may include the following:

- costs of managing tax affairs
- audit of account fees
- general accounting fees (for example, costs of keeping the accounts up-to-date).

Where the fees are for preparing and lodging income tax returns and activity statements, these costs are specified under income tax law as fully deductible.

However, fees for auditing accounts and general accounting are subject to the principle of mutuality and need to be apportioned where the accounts cover both mutual and non-mutual transactions.

Audit of accounts fees

NFP organisations may be required by their governing documents to audit their accounts. Also, state, territory and federal laws may require companies to undergo statutory audits.

Although constitutional and legislative requirements impose an obligation to have an audit performed for a particular year, audit fees are deductible both:

- in the income year in which they are incurred
- to the extent they relate to the organisation's assessable income.

An organisation incurs audit fees when it is definitely committed to the liability, even if the fees are unpaid at the time. The commitment to the liability depends on the audit contract between the organisation and the auditor.

The following contractual arrangements indicate when the audit fees are incurred:

- full payment due on completion of the audit – fees are incurred when the audit is completed
- part payment due on early termination of the audit – fees are incurred for work performed when the termination occurs
- progressive payments due as particular work is performed in specified periods (for example, three months) – fees are incurred when bills are presented for work performed in these periods
- payment due for work done in an agreed period or on completion of a milestone in the audit – fees are incurred after the agreed period or at the time the auditor tells the organisation the milestone has been completed
- full payment due once the auditor expresses an opinion on the organisation's financial statements – fees are incurred when the auditor expresses the opinion
- full payment due on entering the audit contract but instalment payments accepted by the auditor – fees are incurred when the contract is entered into
- instalment payments due during the audit – fees are incurred when the instalments are due
- full payment due on commencement of the audit – see Prepaid expenses for an explanation of when fees are deductible.

Find out about:

- Classification of common expenses
- Separating apportionable items

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Classification of common expenses

Last updated 4 December 2018

The classification of your organisation's expenses will depend on its particular facts and circumstances.

Example: Payments to employment agencies

Payments to employment agencies for staff are shown as apportionable on the basis the staff are required for activities that relate to both members and non-members. If, however, the activities only relate to:

- non-members, the payments are fully deductible
- members, the payments are non-deductible.

The table below provides general guidance only.

Description	Non-deductible	Deductible	Apportional
Accounting fees (general)			X
Administration costs			X
Advertising expenses			X
Annual general meeting expenses	X		
Audit of accounts fees			X
Bad debts			X
Bank charges (investment account)		X	
Bank charges (trading account)			X

Bar expenses			X
Board expenses			X
Borrowing costs (mortgage on club's premises)			X
Building write-off			X
Cash shortages			X
Cleaning costs			X
Community benefit payments (if required by law)			X
ClubGRANTS scheme payments – NSW		X	
Computer expenses			X
Consultancy fees			X
Contract, sub-contract and commission expenses			X
Cost of managing tax affairs		X	
Decline in value (depreciating assets) expenses			X
Directors fees			X
Donations to community	X		

organisations (not DGRs)			
Donations to deductible gift recipients (DGRs)		X	
Electricity costs			X
Employee expenses (other)			X
Employee leave payments			X
Employee leave provisions	X		
Employee salaries and wages			X
Employee superannuation		X	
Employee training and welfare costs			X
Employee uniforms			X
Employees – pay out tips (non-voluntary)			X
Employees – pay out tips (voluntary)	X		
Employees – payroll taxes			X
Employees – worker's compensation costs			X

Employees amenities			X
Entertainment expenses			X
Filing fees			X
Fines and penalties	X		
Flowers and decorations			X
Freight and cartage			X
Gaming licenses (machines owned)			X
Gaming machine commission expenses		X	
Gaming machine expenses (owned or leased)			X
Gaming taxes and levies (machines owned)			X
Gas			X
Guests and reciprocal members expenses		X	
Hire of equipment/videos			X
Hire of facilities for functions			X

Honoraria paid to volunteers			X
Insurance on club property			X
Interest expense (mortgage on club's premises)			X
Investment costs		X	
Keno commission expenses		X	
Land taxes		X	
Laundry and dry cleaning			X
Member discounts	X		
Member loyalty schemes	X		
Member magazine expenses	X		
Member wreaths, flowers, hospital visits	X		
Members birthdays	X		
Members/badge draws	X		
Membership subscriptions costs	X		

Motor vehicle expenses			X
Payments to employment agencies for staff			X
Payphone expenses (commission or agreed amount)		X	
Payphone expenses (owned or leased)			X
Permits, licences and fees			X
Pest control			X
Prepaid expenses			X
Printing, stationery and postage expenses			X
Prizes and trophies	X		
Purchase of merchandise			X
Raffle and bingo expenses			X
Rates		X	
Rent expenses and outgoings – club			X
Rent expenses and outgoings –		X	

investment properties			
Repairs and maintenance – club			X
Repairs and maintenance – investment properties		X	
Restaurant/bistro expenses			X
Security costs			X
Sponsorship costs		X	
Stocktaking expenses			X
Subscriptions to professional associations – first $42		X	
Subscriptions to professional associations (general)			X
Sundry/general expenses			X
TAB facilities commission expenses		X	
Telephone expenses			X
Waste disposal expenses			X

Find out about:

- Separating apportionable items
- Calculating taxable income for examples of classifying expenses
- Record keeping for what records to keep for expenses

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Separating apportionable items

The methods you can use to apportion income and expenses.

Last updated 4 December 2018

Apportionment methods include simple methods, the Waratahs formula and other methods.

Find out about:

- Choosing an apportionment method
- Simple methods
- Waratahs formula
- Other methods

Other methods

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Choosing an apportionment method

Last updated 4 December 2018

Before choosing one or more methods, it is important that you correctly identify whether an individual is a member or non-member as the separation of the apportionable items relies on this accurate identification. To determine if someone is a member, see Meaning of member.

Apportionment methods include:

- simple methods
- the Waratahs formula
- other methods.

The method (or methods) your organisation chooses must reasonably and accurately reflect its revenue and expenses.

An organisation may use one or more methods to separate its apportionable items for the year in question.

Example: Simple methods and Waratahs formula

The Alizarin Society separates its apportionable items into member and non-member amounts using simple methods only – see Case study 1.

However, the Celadon Club uses both simple methods and the Waratahs formula to separate its apportionable items – see Case study 2.

Find out about:

- Simple methods
- Waratahs formula
- Other methods

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Simple methods

Last updated 4 December 2018

In many situations, it is easy to separate the apportionable items into member and non-member revenue. However, you may need to apportion expenses where you cannot identify the expenses as relating to either member or non-member.

Example 1: Single event – non-member tickets percentage

The Cerise Society holds monthly social events throughout the year. It sells tickets to the events to both members and non-members.

In the 2015–16 income year, the society recorded ticket sales of $20,000. This represented 1,000 tickets at $20 a ticket – 600 tickets were sold to members and 400 tickets were sold to non-members. The total cost of running the events was $15,000.

The society separates its revenue and expenses for the events as follows. First, it determines the percentage that relates to non-members.

= number of non-member tickets sold total number of tickets sold

= 400 1,000

= 40%

The society then applies this percentage to the events sales and costs to arrive at the assessable income and deductible expenses components.

Assessable income component
= $20,000 × 40% = $8,000

Deductible expenses component
= $15,000 × 40% = $6,000

These amounts are then added to any other assessable income or deductible expenses.

Example 2: Non-member revenue percentage

The Cerulean Association derives revenue from members and from investments (rent and interest). Investment income is the only non-member income it derives.

In the 2015–16 year, the association's membership revenue totalled $360,000 and its investment income totalled $40,000.

The association also had expenses of $30,000 (consisting of office supplies, rent, telephone and electricity expenses) which did not relate specifically to its membership revenue or its investment income.

To determine the deductible component of these expenses the association first determines its non-member percentage:

$$= \frac{\text{investment income}}{\text{total revenue}}$$

$$= \frac{40{,}000}{400{,}000}$$

= 10%

The association then applies this percentage to the expenses to arrive at the deductible expenses component.

Deductible expenses component
= $30,000 × 10% = $3,000

This amount is then added to any other deductible expenses.

Find out about:

- Other issues

- Choosing an apportionment method
- Waratahs formula
- Other methods

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Waratahs formula

Last updated 4 December 2018

On this page

Determining (A) total visitors and (S) average daily percentage of members attendance

Determining (B) members' guests

Where the separation of apportionable revenue and expenses is more involved, you may choose to use the Waratahs formula.

The Waratahs formula is a base formula for isolating member and non-member contributions to income of an organisation, and it simplifies the process for separating expenses that cannot be easily identified as either member or non-member.

The formula comes from case law and takes its name from a case involving the Waratahs Rugby Union Football Club and the Commissioner of Taxation. The formula is accepted as a reasonable basis for apportionment, particularly for registered and licensed clubs.

The Waratahs formula calculates the non-member percentage, which is then applied to the organisation's revenue and expenses to arrive at the assessable and deductible components.

The **Waratahs formula** is as follows:

$$\frac{(B \times 75\%) + C}{(R \times S \times T) + A}$$

Where:

A = total visitors for the year of income

B = members' guests for the year of income

C = A – B

R = the average number of subscribed members in the year of income

S = the average daily percentage of member attendance at the organisation

T = the number of trading days in the year of income

Organisations **must** calculate their non-member percentage for each year of income, as the variables in the formula can change.

The Waratahs formula requires a figure for daily member attendance at the organisation as well as a visitor total for the year of income.

The formula also requires that members' guests be differentiated from other visitors.

Some organisations are required by state licensing laws to maintain separate registers for members' guests and visitors. However, these laws may not require organisations to keep records of member attendance.

Determining (A) total visitors and (S) average daily percentage of members attendance

The formula relies on the accuracy of visitor and member registers, and survey results.

Visitor and member registers

Where an organisation is required by state licensing laws to maintain a register, total visitors can be determined by summation of the visitors, temporary and honorary members' books.

Likewise, the average daily percentage of member attendance can be determined by summation of the members' daily attendance books.

If an organisation does not have permanent door staff, a survey should be conducted.

Some registered clubs are allowed by state licensing laws to admit temporary members for an extended period of up to seven days, or up to 30 days with approval. Under these arrangements, when the person enters the club's premises for the first time they must sign the visitors' register. However, they do not have to sign in on subsequent visits. Where the club adopts this arrangement, it should count the temporary member as having been a visitor on each day of the period, unless the club records the person's actual attendance on the club's premises during this time.

Conducting surveys

If an organisation does not have records of total visitors and member attendance to include in the formula, it should conduct regular surveys of visitor and member attendance.

If an organisation is required to conduct surveys, we recommend a minimum of two one-week surveys be done each year.

Because organisations have to take into consideration their own circumstances with regard to the variables used in the formula, surveys are needed to determine members' attendance instead of making assumptions.

Two one-week survey periods are acceptable, provided they are administered diligently.

The surveys should be conducted during periods that are likely to be representative of average trading periods – for example during autumn and spring months. School holiday periods may or may not be indicative of normal trading periods.

During the survey period, registered clubs that admit temporary members for an extended period should count the temporary member as a visitor on each day the person actually attends the club's premises.

The survey results may then be annualised in order to estimate total visitor attendance as well as the average daily percentage of member attendance for the year of income.

Example: 'Clicker' count of members at door

When entering the Persimmon Club, visitors are required to sign the visitors' book and members are required to show their member card.

The club determines the total visitors for the year by summation of the visitors' book.

To determine the average daily percentage of member attendance, the club conducts two one-week surveys. During each survey period, the club arranges for staff to attend the door and use a 'clicker' to count the members as they enter the club.

Arranging for staff to attend the door and use a 'clicker' to count the members as they enter the club is one method of conducting surveys. However, other methods can be used provided diligence is applied.

Example: Survey questionnaires and membership swipe card reader

For the next survey period, the Persimmon Club leaves a number of survey questionnaires on its front counter. All people attending the club are encouraged to complete the survey. The survey questions cover a range of topics including the club's ambiance, food, drink, entertainment and pricing. One question in the survey is about the average daily percentage of members attending the club. The club uses the results from this question to determine the average daily percentage of member attendance.

In the following year, the club installs a membership swipe card reader. The club notifies its members that a survey will be conducted during the relevant period and asks that members ensure they swipe their membership card when they enter the club. To encourage members to register their attendance, the club runs lucky member draws during the survey period. The club uses the results from the swipe card reader to determine the average daily percentage of member attendance.

Determining (B) members' guests

Where an organisation is required by state licensing laws to maintain a register, the number of members' guests can be determined by summation of the register.

The Waratahs formula assumes that 75% of members' guests contribute to the organisation's assessable income. This is because the formula assumes that 25% of visitors do not spend money while in the organisation, because they are:

- members' spouses or friends whose expenses are paid by members
- people entertained by the organisation at the expense of the organisation.

Organisations should ensure that the 75% variable used in the formula is representative of their own circumstances.

Example: Calculation using Waratahs formula

The Vermilion Club has a total of 10,000 visitors (A) who attend the club during the income year and 4,000 of these are members' guests (B). Therefore, (C) equals 6,000 being (A) minus (B).

The membership at the beginning of the year was 1,000 and at the end of the year it was 1,400. Therefore, the average number of members for the year was 1,200 (R).

Surveys done during the year have given an average daily member attendance of 10% (S). The club is open for 363 days during the year (T). During this time it recorded bar sales of $52,000 and bar expenses of $22,000.

The club calculates the portion of non-member income and deductions as follows:

$$= \frac{(B \times 75\%) + C}{(R \times S \times T) + A}$$

$$= \frac{(4{,}000 \times 75\%) + 6{,}000}{(1{,}200 \times 10\% \times 363) + 10{,}000}$$

$$= 16.80\%$$

The club then applies this percentage to its bar sales and bar expenses to arrive at the assessable income and deductible expenses components.

Assessable income component
= $52,000 × 16.80% = $8,736

Deductible expenses component
= $22,000 × 16.80% = $3,696

These amounts are then added to any other assessable income or deductible expenses.

See also:

- Choosing an apportionment method
- Simple methods
- Other methods
- Other issues

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Other methods

Last updated 4 December 2018

On this page

Poker machine jackpot and credit payouts method

Fixed percentage method

You may, for the purposes of calculating taxable income, adopt another method of apportionment where there is a reasonable basis to do so and provided it reasonably and accurately reflects your organisation's revenue or expenses for the year in question.

The method you choose is likely to depend on the type of revenue or expenses your organisation has.

Other methods include:

- the poker machine jackpot and credit payouts method

- the fixed percentage method.

Poker machine jackpot and credit payouts method

This method is used in limited circumstances only. It may not be suitable for organisations that do not have many poker machines, or if the poker machines are not used frequently.

This method should **only** be used to apportion revenue and expenses that relate to poker machines. This is because it does not take into account the members and non-members who attend the organisation and do not play the poker machines.

This method uses poker machine payouts to members and non-members to arrive at a non-member percentage.

Example: Calculation using poker machine jackpot and credit payouts method

The Ecru Club owns and operates poker machines on its premises.

An examination of its records for the year shows 24 jackpot payouts to members totalling $12,000 and 36 jackpot payouts to visitors totalling $12,000. It also shows 96 credit payouts to members totalling $24,000 and 144 credit payouts to visitors totalling $72,000.

During the year it recorded gaming machine revenue of $624,000 and gaming machine expenses of $264,000.

The payout percentage is as follows:

= number of jackpot and credit payouts to visitors total number of jackpot and credit payouts

= 180 300

= 60%

The club would **only** apply the percentage to its gaming machine revenue and expenses to arrive at the assessable income and

deductible expenses components. These amounts would then be added to any other assessable income or deductible expenses.

Fixed percentage method

This method is where an organisation has negotiated a percentage with us. For example, an organisation applies for a private ruling and we advise them of the percentage to use.

A difficulty with this method is that it does not reflect changes that occur from year to year – for example an organisation's refurbishment or new legislation requirements.

A **private ruling** only applies to the particular circumstances that it describes. If there is a material difference between the circumstances described and what actually occurs, the private ruling is ineffective.

Due to the variations between organisations' circumstances, it is not feasible for us to prescribe one fixed percentage for use by all organisations.

Find out about:

- Other issues
- Choosing an apportionment method
- Simple methods
- Waratahs formula

QC 23099

Other issues

An overview of the other issues you need to consider such as CGT, GST and FBT.

Last updated 4 December 2018

Capital gains tax (CGT) is a component of income tax. The operations of NFP organisations may have CGT consequences.

Wholly owned corporate groups may have the option of consolidating for income tax. While a not-for-profit company can be the head company of a consolidated group, it cannot be a subsidiary member.

If your organisation provides a fringe benefit to its employees, it may have a fringe benefits tax (FBT) liability. Your organisation will need to distinguish between employees, volunteers and independent contractors.

Goods and services tax (GST) is a broad-based tax of 10% on the sale of most goods, services and anything else consumed in Australia. Some issues your organisation may need to consider are the effect of GST on:

- vouchers and gambling
- tips and gratuities
- taxable income.

State and territory governments levy stamp duty, payroll tax and land tax. They also have their own laws regulating fundraising activities of NFP organisations.

Find out about:

- Capital gains tax
- Consolidation for income tax purposes
- Goods and services tax
- Fringe benefits tax
- State and territory requirements

Capital gains tax

Consolidation for income tax purposes

Goods and services tax

Fringe benefits tax

State and territory requirements

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Capital gains tax

Last updated 4 December 2018

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CGT discount

CGT small business concessions

Other CGT exemptions and roll-overs

CGT consequences when an organisation changes status

Amalgamations and dissolutions

Capital gains tax (CGT) is the tax a person or organisation pays on any capital gain it makes and includes in its annual income tax return. There is no separate tax on capital gains – it is just a component of income tax. An organisation is taxed on its net capital gain at the company tax rate.

An organisation's	=	Total capital gains	–	Total capital losses,	–	Any CG small

net capital gain		for the year		including any net capital losses from previous years		busines concess

Some of the particular CGT issues that can affect a NFP organisation include:

- the sale of assets used in carrying on its activities
- changes to the form of an organisation's incorporation
- the amalgamation of organisations
- the availability of CGT concessions such as the small business concessions.

See also:

- For detailed information on how to work out your organisation's net capital gain or net capital loss, see Guide to capital gains tax.

Making a capital gain or capital loss

Generally, a capital gain or capital loss is made if a CGT event happens. Many CGT events are transactions that involve a CGT asset while other CGT events relate directly to capital receipts.

The most common CGT event (known as CGT event A1) happens if an organisation **disposes of an asset** to someone else – for example, it sells or gives away an asset. Examples of other CGT events are:

- the loss or destruction of an asset (the destruction may be voluntary or involuntary)
- the cancellation, surrender or redemption of shares
- the receipt of a payment for creating a right in another entity
- the receipt of a lease premium.

There is a summary of CGT events in the Guide to capital gains tax.

There are special rules that apply when working out gains and losses from depreciating assets.

If you use a depreciating asset wholly for a taxable purpose, any gain you make on its disposal is treated as ordinary income and any loss as a deduction.

If a depreciating asset is used both for a taxable purpose and for a non-taxable purpose, a capital gain or capital loss may also arise on disposal. The amount of the capital gain or capital loss is the difference between the asset's cost and its termination value that is attributable to the use for a non-taxable purpose.

Example: Non-taxable member percentage applies

A NFP society sells a computer for $600. The computer's cost is $1,000. It has been used 40% of the time for non-taxable member purposes. At the time of its sale, the computer's adjustable value is $700.

A capital loss of $160 arises. This is 40% (the non-taxable member proportion) of the difference between the computer's termination value and its cost.

In addition, the organisation can claim a deduction of $60. This is 60% (the taxable or non-member proportion of use) of the balancing adjustment amount (the difference between the computer's termination value and its adjustable value at the time of its sale).

For depreciating assets that are used wholly for a non-taxable purpose, the difference between the asset's termination value and its cost can be a capital gain or capital loss.

For some depreciating assets, any capital gain or capital loss arising will be disregarded even though the asset is used for a non-taxable purpose.

If your organisation has disposed of an asset that has been depreciated, see **Guide to depreciating assets**.

Calculating a capital gain or loss

For a CGT event involving an asset, a capital gain or loss is broadly the difference between the amount paid for the asset and the amount

received for it. In some cases, the amount paid or received for an asset is taken to be its market value. Incidental costs involved in acquiring and disposing of the asset, such as legal fees and commissions, can also be taken into account.

For other CGT events, a capital gain or loss is generally the difference between the amount received and the costs involved with the transaction.

If your organisation's total capital losses for the income year are more than its total capital gains, the difference is a net capital loss for the year. The net capital loss can be carried forward to later income years to be deducted from future capital gains.

Pre-CGT assets

Generally, any capital gain or loss from an asset that was acquired before 20 September 1985 (pre-CGT assets) is disregarded.

CGT asset purchased with funds contributed by members

Although an organisation's mutual receipts are not treated as assessable income, this does not mean that an asset purchased with those receipts is exempt from CGT.

Example: Not exempt from CGT

An incorporated NFP association owned a property purchased with contributions made by the members. The property was used and maintained as an administration centre to collect member subscriptions and to administer activities for the benefit of members.

A capital gain arising on sale of the property is not exempt from CGT.

CGT discount

The CGT discount (which enables some capital gains to be reduced by up to 50%) is not available to companies. As a NFP club, society or

association is treated as a company for tax purposes, the CGT discount cannot reduce any capital gain it may make. However, the small business 50% active asset reduction may apply – see below for more information.

CGT small business concessions

The CGT concessions a NFP organisation may be entitled to are:

- the small business 50% active asset reduction – which reduces a capital gain by 50%
- the small business roll–over – which defers a capital gain for a minimum of two years if a replacement asset is acquired or expenditure is incurred in making improvements to existing assets.

To qualify, your organisation must first satisfy at least one of the following basic conditions:

- it is a small business entity; that is, an entity with an aggregated turnover of less than $2 million.
- it does not carry on business (other than as a partner) but its asset is used in a business carried on by a small business entity that is an affiliate or is connected with it (passively-held assets)
- it is a partner in a partnership that is a small business entity, and the CGT asset is either:
  - its interest in a partnership asset (partnership assets)
  - an asset it owns that is not an interest in a partnership asset (partner's assets)
- it satisfies the maximum net asset value test – the total net market value of the assets of your organisation and certain other entities are $6 million or less just before the CGT event that results in the capital gain.

In addition, the asset must satisfy the active asset test.

See also:

- Capital gains tax concessions for small business

Other CGT exemptions and roll-overs

There are a range of exemptions and roll-overs that can reduce the amount of a capital gain or loss, or defer the capital gain or loss. Examples are:

- an exemption for cars and motor cycles
- roll-over if a statutory licence is renewed or extended
- roll-over if an asset is compulsorily acquired.

Exemptions and roll-overs may apply to your organisation if it meets the relevant conditions.

CGT consequences when an organisation changes status

An organisation may be unincorporated, incorporated under the *Corporations Act 2001* or an equivalent foreign law, or incorporated under a law other than a company law – for example, the *Associations Incorporation Act 1981* (Qld).

If an unincorporated association incorporates, a CGT event may happen to each of the CGT assets that it owns because incorporation results in a change of ownership.

Example: CGT event – changing from unincorporated to incorporated

An unincorporated club bought a property in Brisbane in 1996. In February 2015, it incorporated under the *Associations Incorporation Act 1981* (Qld).

CGT event A1 happens to the property.

The unincorporated club will have made a capital gain if the market value of the property at the time exceeds the cost base of the property. The club will make a capital loss if the market value of the property is less than its reduced cost base.

If the unincorporated club owned assets that it acquired before 20 September 1985 (pre-CGT assets), the incorporated club will have acquired the assets for market value at the time of incorporation.

If an incorporated organisation changes the form of its incorporation, there may also be CGT consequences, depending on the relevant legislation. For example, incorporation under the *Corporations Act 2001* in certain circumstances does not create a new legal entity.

If your organisation changes status and you are unsure about the CGT consequences, you should seek advice from a professional adviser or contact us.

Amalgamations and dissolutions

There can be CGT consequences if organisations amalgamate.

For example, capital gains and losses may arise where two organisations merge to form a new organisation, or where one organisation is absorbed into another.

The CGT consequences resulting from amalgamations may differ depending on the state or territory in which the organisations are incorporated.

Similarly, the winding up of an organisation can result in capital gains and losses.

See also:

- Guide to capital gains tax
- Capital gains tax concessions for small business

QC 23099

Consolidation for income tax purposes

Last updated 4 December 2018

Wholly owned corporate groups may have the option of consolidating for income tax purposes. Consolidation is optional but irrevocable. The consolidated group operates as a single entity for income tax purposes, lodging a single income tax return and then paying a single set of PAYG instalments.

When a group consolidates, it is a 'one in, all in' situation, in which all of the head company's eligible wholly-owned subsidiary members become part of the group.

The following entities (which receive special tax treatment compared with ordinary Australian-resident companies) cannot be a head company or subsidiary member of a consolidated group:

- exempt entities (that is, total ordinary and statutory income is exempt)
- pooled development funds
- film licensed investment companies
- certain credit unions.

Other entities specifically excluded from being a subsidiary member of a consolidated group are:

- not-for-profit companies
- trusts that are complying and non-complying superannuation entities
- trusts that are non-complying approved deposit funds.

While a not-for-profit company can be the head company of a consolidated group, it cannot be a subsidiary member.

See also:

- Consolidation reference manual

QC 23099

Goods and services tax

Last updated 4 December 2018

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[Registering for GST]

[GST on vouchers]

GST and gambling

GST rebate on gaming machines

GST on tips and gratuities

The effect of GST on taxable income

Mutual receipts and GST turnover

Goods and services tax (GST) is a broad based tax of 10% on the sale of most goods, services and anything else consumed in Australia.

Registering for GST

If your NFP organisation has a GST turnover of $150,000 or more, it must register for GST.

If your organisation has a GST turnover of less than $150,000, it can choose to register for GST. The decision to voluntarily register for GST should be made based on your organisation's administrative needs.

Generally, an organisation must then stay registered for at least 12 months, even if its GST turnover is less than $150,000.

If your organisation is registered (or required to be registered) for GST, it generally includes GST in the price of most goods and services and anything else it sells.

Being registered for GST means that your organisation:

- must pay the GST on its taxable sales to us
- can claim GST credits for any GST included in the price of its business purchases
- must complete a business activity statement to report the taxable sales and claim GST credits.

See also:

- GST
- GST for small business

GST on vouchers

A voucher includes a voucher, token, stamp (but not a postage stamp), coupon or similar article, or prepaid phone card or facility that, when redeemed, entitles the holder to receive goods or services in accordance with its terms.

Broadly speaking, if you sell a voucher for its stated monetary face value and the holder is entitled to redeem it for goods or services up to that stated value, you do not account for the face value of the voucher on your activity statement until it is redeemed.

See also:

- GST and vouchers – completing your activity statement

GST and gambling

Gambling includes:

- raffles
- lotteries
- gaming machines in clubs
- betting on racing and other events.

Gambling sales are taxable, but you only apply GST to your margin – not to individual gambling sales.

To work out your margin:

- work out the total amount you received in gambling event wagers for the tax period
- subtract the total monetary prizes you paid for the tax period.

If the total wagered amount you received is more than the total amount of monetary prizes you paid, you must pay GST of one-eleventh of this margin.

Example: GST on gambling sales

A GST registered NFP organisation receives $83,000 in bets through the gaming machines it owns and pays out $50,000 in cash prizes in one tax period. The margin on the club's sales for GST purposes is $33,000 ($83,000 – $50,000).

The club will need to pay $3,000 GST ($33,000 × 1/11) on its gambling sales for this tax period.

You do not include the value of non-monetary prizes, such as a car, when you work out your margin. You can only deduct monetary prizes from the total amount wagered.

Example: GST on raffle ticket sales

A GST registered NFP organisation raffles a car and collects $44,000 from ticket sales. As the car is not a monetary prize, the margin for holding the raffle would be $44,000. The club will need to pay $4,000 GST ($44,000 × 1/11) to us.

If you receive a monetary donation that you use as a prize in a raffle or competition, you include the value of the prize in your margin.

If you receive a non-monetary donation that you use as a prize in a raffle or competition, you do not include the value of the prize in your margin.

See also:

- Guidance for gambling and gaming venues

Lucky badge member draws

In a lucky badge member draw, a club member's registration/membership number is drawn at random. If that member is present, they win a cash prize. If the member is not present, the prize jackpots by the cash amount until the prize is won in a later draw. Lucky badge member draws are only open to members. No tickets are purchased. Members simply have to be present when the draw is undertaken.

A lucky badge member draw is a gambling event because it is a contest where the outcome is determined by chance. The club will need to take into account monetary prizes given to members in calculating its margin when determining the GST liability of its gambling sales.

See also:

- GSTR 2002/3A2 *Goods and services tax: prizes*

GST rebate on gaming machines

The 'GST rebate' is a payment made to NSW clubs by the NSW Government to help the clubs with the impact of the GST on their gaming machine revenue. The payment is based on actual gaming profits for the previous three months and paid quarterly.

The GST rebate is a result of an external party arrangement – that is, the memorandum of understanding between the NSW Government and Clubs NSW. Clubs do not have to separately register or make a claim for the payment as the information is collected using data matching.

The payment is not a reduction in a club's GST liability on its gaming machine revenue, because the GST law does not include a rebate on GST.

The GST rebate is not a taxable supply as the clubs are not required to supply anything, do anything or enter into an obligation to do anything to obtain it. Therefore there is no GST payable on the payment.

GST on tips and gratuities

If your organisation is registered for GST and receives tips that are voluntarily paid, your organisation does **not** have to:

- pay GST on the tips it pays to its employees or contractors
- report the tips it pays to its employees or contractors as income on its activity statement.

If your organisation does not pay all of these tips to its employees or contractors, your organisation must:

- pay GST on the tips it keeps as its business takings
- report this income on its activity statement.

If your organisation is registered for GST and receives tips that are non-voluntary (for example, for a pre-set amount, a surcharge or a service charge), your organisation must:

- pay GST on these tips

- report this income on its activity statement.

See also:

- Employees

The effect of GST on taxable income

The effect of GST on the calculation of taxable income differs depending on whether your organisation is registered for GST, or is required to be registered.

Assessable income

If your organisation is registered for GST or is required to be registered, adjustments to assessable income may be needed to calculate the taxable income. Your organisation's assessable income will not include the GST payable on a taxable supply it makes.

Example: GST not included in assessable income

A recreational association is registered for GST. It makes taxable supplies of equipment to non-members for $220 per item. The price includes $20 GST.

The association's assessable income would include $200 for each item. The $20 GST would not be included.

If your organisation is not registered for GST and is not required to be registered, no adjustment for GST is needed in calculating taxable income.

Example: GST included in assessable income

A social club is not registered for GST and not required to be registered. It supplies equipment to non-members for $330 per item.

The club would include $330 per item as assessable income.

Deductions

If your organisation is registered for GST or required to be registered, adjustments to deductions may be needed to calculate the taxable income. Your organisation's deductions will not include the GST credits to which your organisation is entitled.

Example: GST not included in deduction

A NFP club is registered for GST. It buys goods for $550 for a fundraising drive to non-members. It is entitled to a GST credit of $50 on the purchase.

The club's deduction would be $500. It cannot claim a deduction for the part of the purchase price that it can claim as a GST credit – in this case $50.

If your organisation is not registered for GST and is not required to be registered, no adjustment for GST is needed in calculating taxable income.

Example: GST included in deduction

A lobbying association is not registered for GST and not required to be registered. It buys goods for $220 to help in deriving its assessable income. The $220 included $20 GST. It is not entitled to a GST credit of $20 on the purchase.

The association's deduction would be $220.

Mutual receipts and GST turnover

While mutual receipts are not included in assessable income, they may be included in GST turnover.

Where a mutual receipt is related to an input taxed supply made by the supplier, it is not included in the GST turnover.

Fringe benefits tax

Last updated 4 December 2018

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Entertainment expenses

Tax-exempt body entertainment fringe benefits

Reportable fringe benefits

Fringe benefits tax (FBT) is a tax payable by employers who provide fringe benefits to their employees or to associates of their employees. This is the case whether or not the employer is the actual supplier of the benefit (for example, where the benefit is provided by an associate or under an arrangement with a third party).

If your organisation provides a fringe benefit to its employees or to associates of its employees (typically family members), it may have an FBT liability. This is separate from income tax and is calculated on the taxable value of the fringe benefits provided.

Fringe benefit

A fringe benefit is a 'payment' to an employee, but in a different form to salary and wages. Benefits include rights, privileges or services. For example, a fringe benefit may be provided when an employer:

- allows an employee to use a work car for private purposes
- gives an employee a cheap loan
- pays an employee's private health insurance costs.

Some employers, including NFP organisations, will need to distinguish between employees, volunteers and independent contractors. For the purposes of FBT, an employee is a person who receives (or is entitled

to receive) salary or wages, or a benefit that has been provided in respect of their employment. For example, an employee may be a company director. However, a volunteer is not paid for work. Reimbursing a volunteer for out-of-pocket expenses does not cause them to become an employee.

Generally, benefits provided to volunteers do not attract FBT. If an organisation provides non-cash benefits to workers in lieu of salary and wages, FBT can apply.

See also:

- Type of worker to work out if your worker is an employee, independent contractors or volunteer
- Fringe benefits tax
- Not-for-profit volunteers

Common fringe benefits

One of the most common fringe benefits is a car, which generally becomes a fringe benefit when it is owned or leased by an employer and made available for the private use of an employee. If the employer's car is garaged at an employee's house, it is treated as having been made available for private use.

Other common fringe benefits include:

- expense payments
- loans
- meals/entertainment
- housing.

Common exempt benefits

A number of benefits are exempt from FBT. These include:

- some taxi travel
- in-house health care facilities
- most minor benefits where the value of the benefit is less than $300 and it would be unreasonable to treat it as a fringe benefit.

An FBT exemption applies for the following work-related items:

- a portable electronic device
- an item of computer software
- an item of protective clothing
- a briefcase
- a tool of trade.

The exemption is limited to:

- items primarily for work-related use
- one item per FBT year for items that have a substantially identical function, unless the item is a replacement item.

Registering for FBT

We recommend you register your organisation once you have established that it has to pay FBT.

Entertainment expenses

As an employer, you may, from time to time, provide your employees with food and drink and possibly leisure activities. This may happen in a variety of circumstances and in relation to a number of different employees and/or their associates. For example:

- Christmas parties
- business lunches
- birthday celebrations
- golf days
- planning conferences
- gym memberships
- breakfast meetings
- farewell functions
- reward and recognition functions
- memberships to sporting clubs

- anniversary dinners
- fundraising functions.

If you sometimes provide these events for your staff, you will need to know whether the events will be classified as entertainment and require you to pay FBT.

Tax-exempt body entertainment fringe benefits

A tax-exempt body entertainment fringe benefit may arise from entertainment expenses incurred by an employer who is wholly or partially exempt from income tax, or who does not derive assessable income from the activities to which the entertainment relates.

Your organisation is a tax-exempt body if your organisation's income is either:

- wholly exempt from income tax (for example, a club that earns income from members only)
- partially exempt from income tax (for example, a club that earns income from both members and non-members).

There are only very limited circumstances under which an exemption will apply to the provision of food or drink.

For common entertainment scenarios (such as meals provided to staff working shifts in hospitality) and whether an exemption applies, see **Fringe benefits tax (FBT) and entertainment for not-for-profit organisations**.

Depending on the standard of entertainment provided, the benefit may qualify for the minor benefits exemption. As well as the general criteria for deciding whether a minor benefit should be treated as an exempt benefit, for tax-exempt bodies the exemption is available only where either:

- the provision of the entertainment is incidental to the provision of entertainment to outsiders and does not consist of a meal, other than light refreshments
- a function is held on your business premises solely as a means of recognising the special achievements of your employee in a matter

relating to their employment.

In these circumstances only benefits provided to your employee, and their associates, are exempt from FBT.

Example 1: Provision of light refreshment incidental to the provision of entertainment to outsiders

A tax-exempt body hosts a morning tea at a local cafe for its sponsors. Finger food, tea, coffee and soft drinks are provided. Some employees attend to thank the sponsors on behalf of the tax-exempt body for their assistance throughout a particularly difficult year. It is unusual for the tax-exempt body to host this type of function. The cost per head is $15. Providing morning tea to employees in these circumstances would meet the requirements of the minor benefits exemption.

Example 2: Function recognising special achievements of employee

A project manager, who is an employee of a tax-exempt body, is awarded 'Project Manager of the Year' by an external organisation. A dinner is held on the tax-exempt body's premises for the presentation of the award. The cost of the dinner is $60 per person. Senior management of the tax-exempt body, the employee receiving the award and their family (spouse and child), and representatives from the external organisation presenting the award attend the dinner.

The minor benefits exemption applies in this circumstance to the employee receiving the award and their family.

The minor benefits exemption rule is unlikely to apply to any staff Christmas party provided by a tax-exempt body unless very limited circumstances apply.

Reportable fringe benefits

If the value of certain fringe benefits provided to your employees (including their associates) exceeds $2,000 in an FBT year, you are required to record the grossed-up taxable value of those benefits on your employee's payment summary for the corresponding income year. This requirement applies even if your organisation is not liable to pay FBT.

See also:

- Reportable fringe benefits

QC 23099

State and territory requirements

Last updated 4 December 2018

Taxes that may be levied by state and territory governments include:

- stamp duty (or duty in Queensland and Victoria)
- payroll tax
- land tax.

Each state and territory has its own laws for these taxes – administered by its revenue office.

Enquiries about state and territory taxes should be directed to your local state or territory government authority – not us.

States and territories also have their own laws regulating the fundraising activities of NFP organisations. The types of activities that are regulated include bingo, raffles and doorknock appeals.

As each state and territory has its own laws for these activities, you should direct any enquiries about state and territory regulations to the relevant authority in your area.

Find out about:

- Calculating taxable income

See also:

- State and territory taxes

- **State, territory and local government requirements** for fundraising activities

QC 23099

Calculating taxable income

The steps for calculating taxable income and 2 detailed case studies.

Last updated 4 December 2018

On this page

Case study 1: Alizarin Society

Case study 2: Celadon Club

The steps for calculating taxable income, as discussed in Taxable income and mutuality, are:

1. Classify revenue
2. Classify expenditure
3. Separate the apportionable items
4. Calculate the taxable income

We provide two worked examples of how to calculate taxable income:

- Case study 1: Alizarin Society
- Case study 2: Celadon Club

Case study 1: Alizarin Society

Facts

The Alizarin Society is a not-for-profit company with the following revenue and expenses for the year ended 30 June. It is not registered

for GST and not required to be registered.

Revenue	$	Expenses	$
Membership subscriptions	$3,000	Postage (see note 2)	$100
Term deposit interest	$800	Photocopying (see note 2)	$100
Christmas dinner (see note 1)	$5,000	Christmas dinner (see note 1)	$4,000
Lamington sale to public	$2,500	Cost of lamingtons	$1,800
		Term deposit charges	$50
Total	**$11,300**		**$6,050**

Note 1 The Christmas dinner was attended by 70 members and 30 non-members who paid $50 each. It cost $40 per person to cater for the dinner.

Note 2 From an examination of the society's records, 10% of its communication during the year was with non-members.

Steps for calculating taxable income

Step 1: Classify revenue

Revenue	Non-assessable	Assessable	Apportionable
Membership subscriptions	$3,000	–	–
Term deposit interest	–	$800	–
Sale of	–	$2,500	–

lamingtons			
Christmas dinner	–	–	$5,000
Total	**$3,000**	**$3,300**	**$5,000**

Step 2: Classify expenses

Expenses	Non-deductible	Deductible	Apportionable
Postage	–	–	$100
Photocopying	–	–	$100
Christmas dinner	–	–	$4,000
Cost of lamingtons	–	$1,800	–
Term deposit charges	–	$50	–
Total	–	**$1,850**	**$4,200**

Step 3: Separate the apportionable items

Revenue	Non-assessable	Assessable	Total
Christmas dinner (see note 3)	$3,500	$1,500	$5,000

Note 3 Revenue from the Christmas dinner is apportioned on the basis that it was attended by 70 members and 30 non-members who paid $50 each.

Expenses	Non-	Deductible	Total

	deductible		
Christmas dinner (see note 4)	$2,800	$1,200	$4,000
Postage (see note 5)	$90	$10	$100
Photocopying (see note 5)	$90	$10	$100
Total	**$2,980**	**$1,220**	**$4,200**

Note 4 Expenses for the Christmas dinner are apportioned on the basis that it was attended by 70 members and 30 non-members and it cost $40 per person to cater for the dinner.

Note 5 Expenses for postage and photocopying are apportioned on the basis that 10% of Alizarin Society's communication during the year was with non-members.

Step 4: Calculate the taxable income

Assessable income ($3,300 + $1,500)	$4,800
Less: deductible expenses ($1,850 + $1,220)	< />
Taxable income	**$1,730**

As its taxable income is more than the taxable threshold, the Alizarin Society will need to lodge a company tax return. For information on how to complete the company tax return, see **Company tax return guide for not-for-profits**.

Case study 2: Celadon Club

Facts

The Celadon Club provides licensed facilities to its members and the general public. It also provides assistance to community and sporting organisations by way of donations.

The club is incorporated in the Australian Capital Territory under the *Associations Incorporation Act 1991*. Its constitution contains clauses prohibiting it from making any distribution, whether in money, property or otherwise, to its members.

The club's facilities include a bar, restaurant and function room. It also has poker machines (which it owns), Keno and TAB.

The club contracts with an external catering company to undertake the operation of the restaurant. Under the contract, the club receives lease payments and the caterer is responsible for all catering, including kitchen and waiting staff.

The club hires out its function room to the public. It also uses the function room for its own events such as Valentine's Day and Melbourne Cup luncheons.

The club has 5,000 members. A register is kept at the door which records member and non-member attendance. During the income year ended 30 June, 50,000 visitors entered the premises, including 43,000 guests who were signed in by members. The club traded for a total of 360 days during the year, and on average 250 members attended the club every trading day.

The club is registered for GST. Its revenue and expenses are shown net of GST, except where the amount of GST incurred is not recoverable from the ATO.

The club's financial statements for the year ended 30 June show the following revenue and expenses:

Revenue	**$**
Bar sales	827,695
Bingo and raffle income	23,496
Club luncheons – ticket sales	22,500
Function room hire	6,000
Interest received	54,322
Keno commissions	46,152

Lease income – restaurant	10,000
Member subscriptions	51,800
Poker machine revenue – gross net of payouts	1,598,247
TAB commissions	18,421
Vending machine commissions	21,467
Total	**$2,680,100**
Expenses	**$**
Accounting – general	7,000
Accounting – management of tax affairs	3,000
Audit	5,000
Advertising	18,461
Bank charges	1,927
Bar expenses:	
• Cost of goods sold	392,576
• Decline in value (depreciating assets)	13,592
• Maintenance and supplies	29,764
Bingo expenses	4,533
Cleaning	45,000
Club luncheons – catering expenses	13,500
Club luncheons – entertainer expenses	3,000

Computer expenses	9,664
Decline in value (depreciating assets)	121,498
Directors expenses and honoraria	19,712
Donations to deductible gift recipients	12,869
Electricity	82,478
Insurance	48,192
Gaming machine expenses:	
• Gaming machine tax	210,969
• Payments to community organisations	13,786
• Repairs and maintenance	36,438
• Decline in value (depreciating assets)	262,481
• Central monitoring service charges	26,183
Keno expenses	2,157
Members magazine	8,000
Membership cards	2,000
Payroll tax	9,586
Printing, stationery and postage	22,544
Raffle expenses	24,851
Rates and land taxes	19,688

Repairs and maintenance	86,563
Salaries and wages	728,547
Pay TV	21,665
Subscription expenses	9,226
Superannuation	66,499
TAB expenses	3,661
Telephone	15,297
Total	**$2,401,907**
Net profit	**$278,193**

Steps for calculating taxable income

Follow the four steps below to calculate the taxable income for Case study 2: the Celadon Club:

- Step 1: Classify revenue
- Step 2: Classify expenses
- Step 3: Separate the apportionable items
- Step 4: Calculate the taxable income

Step 1: Classify revenue

Revenue	Non-assessable income	Assessable income	Apportionable revenue
Bar sales			827,695
Bingo and raffle income			23,496
Club luncheons –			22,500

ticket sales			
Function room hire		6,000	
Interest received		54,322	
Keno commissions		46,152	
Lease income – restaurant		10,000	
Member subscriptions	51,800		
Poker machine revenue			1,598,247
TAB commissions		18,421	
Vending machine commissions		21,467	
Total	**$51,800**	**$156,362**	**$2,471,938**

Step 2: Classify expenses

Expenses	**Non-deductible expenses**	**Deductible expenses**	**Apportionabl expenses**
Accounting – general			7,000
Accounting – management of tax affairs		3,000	

Audit			5,000
Advertising			18,461
Bank charges			1,927
Bar expenses:			
• Cost of goods sold			392,576
• Decline in value (depreciating assets)			13,592
• Maintenance and supplies			29,764
Bingo expenses			4,533
Cleaning			45,000
Club luncheons – catering expenses			13,500
Club luncheons – entertainer expenses			3,000
Computer expenses			9,664
Decline in value (depreciating assets)			121,498
Directors expenses and			19,712

honoraria			
Donations to deductible gift recipients		12,869	
Electricity			82,478
Insurance			48,192
Gaming machine expenses:			
• Gaming machine tax			210,969
• Payments to community organisations			13,786
• Repairs and maintenance			36,438
• Decline in value (depreciating assets)			262,481
• Central monitoring service charges			26,183
Keno expenses		2,157	
Members magazine	8,000		
Membership cards	2,000		

Payroll tax			9,586
Printing, stationery and postage			22,544
Raffle expenses			24,851
Rates and land taxes		19,688	
Repairs and maintenance			86,563
Salaries and wages			728,547
Pay TV			21,665
Subscription expenses	9,226		
Superannuation		66,499	
TAB expenses		3,661	
Telephone			15,297
Total	**$19,226**	**$107,874**	**$2,274,807**

Step 3: Separate the apportionable items

Revenue	Non-assessable	Assessable	Total
Bar sales	595,609	232,086	827,695
Bingo and raffle income	16,908	6,588	23,496
Club luncheons –	18,000	4,500	22,500

ticket sales			
Poker machine revenue	1,150,099	448,148	1,598,247
Total	**$1,780,616**	**$691,322**	**$2,471,938**

Club luncheons

The club held three special event luncheons during the year (Valentine's Day, Melbourne Cup and Christmas Day). The ticket price to attend each event was $50. The club apportions the revenue from the luncheons on the basis that a total of 450 tickets were sold to the events – 360 tickets to members and 90 tickets to non-members. The non-member percentage to apply using this method is 90/450 = 20%.

Other revenue items

The club regularly attracts members of the public, making it difficult to identify and separate its other revenue items. The club apportions these items using the Waratahs formula as follows:

The percentage of members who attend on a daily basis is 5%, or 250 members on average who attend on a daily basis divided by 5,000 memberships. The total number of visitors for the year was 50,000, which included 43,000 members' guests – that is, visitors signed in by members.

After putting in the figures, the non-member percentage to apply using the Waratahs formula is 28.04%.
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Expenses	Non-deductible	Deductible	Total
Accounting – general	5,037	1,963	7,000
Audit	3,598	1,402	5,000

Advertising	13,285	5,176	18,461
Bank charges	1,387	540	1,927
Bar expenses:			
• Cost of goods sold	282,498	110,078	392,576
• Decline in value (depreciating assets)	9,781	3,811	13,592
• Maintenance and supplies	21,418	8,346	29,764
Bingo expenses	3,262	1,271	4,533
Cleaning	32,382	12,618	45,000
Club luncheons – catering expenses	10,800	2,700	13,500
Club luncheons – entertainer expenses	2,400	600	3,000
Computer expenses	6,954	2,710	9,664
Decline in value (depreciating assets)	87,430	34,068	121,498
Directors expenses and honoraria	14,185	5,527	19,712

Electricity	59,351	23,127	82,478
Insurance	34,679	13,513	48,192
Gaming machine expenses:			
• Gaming machine tax	151,813	59,156	210,969
• Payments to community organisations*	9,920	3,866	13,786
• Repairs and maintenance	26,221	10,217	36,438
• Decline in value (depreciating assets)	188,881	73,600	262,481
• Central monitoring service charges	18,841	7,342	26,183
Payroll tax	6,898	2,688	9,586
Printing, stationery and postage	16,223	6,321	22,544
Raffle expenses	17,883	6,968	24,851
Repairs and maintenance	62,291	24,272	86,563

Salaries and wages	524,262	204,285	728,547
Pay TV	15,590	6,075	21,665
Telephone	11,008	4,289	15,297
Total	**$1,638,278**	**$636,529**	**$2,274,807**

* These payments are required under a state law. The law requires clubs holding gaming machine licenses to make payments from their gaming machine revenue to community organisations at a rate prescribed by the state. For this year, the club made cash payments that met, but did not exceed, the prescribed rate.

Club luncheons

The club held three special event luncheons during the year (Valentine's Day, Melbourne Cup and Christmas Day). Catering was through the club's contract caterer at a cost of $30 a head. The club apportions the cost of the luncheons on the basis that a total of 450 tickets were sold to the events – 360 tickets to members and 90 tickets to non-members. The percentage to apply using this method is 90/450 = 20%. This percentage would also apply to other costs associated with the club luncheons – that is, the entertainer expenses.

Other expense items

The club regularly attracts members of the public, making it difficult to identify and separate its other expense items. The club apportions its other expense items using the Waratahs formula. The percentage to apply using the Waratahs formula is 28.04% (as calculated in Other revenue items).

Step 4: Calculate the taxable income

Assessable income ($156,362 + $691,322)	$847,684
Less: deductible expenses ($107,874 + $636,529)	$744,403
Taxable income	**$103,281**

As its taxable income is more than the taxable threshold, the Celadon Club will need to lodge a company tax return.

For information on how to complete the company tax return, including a worked example that uses the figures from Case study 2, see **Company tax return guide for not-for-profits**.

QC 23099

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