

Business Tax Activity 1

Years 7-10

WHAT IS A BUSINESS?

BUSINESS FACTS

A business is any activity where goods or services are sold with the intention of making a profit. The business calculates profit by deducting expenses from the income earned by the business. The profit earned from these activities is taxed.

A **business** can be set up using one of a number of legal structures, for example, sole trader, partnership, company and trust.

If an activity has not been set up with the aim of making a profit, it is considered to be a **hobby**. Unlike a business, money received from a hobby is not taxed, and the expenses incurred cannot be claimed as deductions.

The following example demonstrates the distinction between businesses and hobbies.

Madison loves horse riding. She decides that she will set up a horse riding school to teach young people how to ride. This will be her main occupation, so it will be considered a business. She will be taxed on the income earned and can claim the allowable expenses of running the business.

However, if Madison has a regular job as a bank teller and only teaches horse riding at weekends for a friend's children, this is regarded as a hobby. This means any money she gets from the lessons is not regarded as assessable income and is not subject to tax. She is also unable to claim any of the related expenses as tax deductions.

Fact sheet

The materials in Business tax have been designed to be used in a variety of ways. Each topic is designed as a stand-alone section to be explored by a whole class, small groups or individual students.

PREPARING A BUSINESS PLAN

Before you start operating a business, you should write a **business plan**. This plan sets out:

- ▶ the aims of the business, its structure and how, where and when it will operate
- ▶ a marketing plan including objectives, target market, competition, competitive advantage, pricing strategies and how the product will be distributed
- ▶ an industry analysis including current size, trends and prospects for the industry
- ▶ a financial plan including **cash budgets**, budgeted **profit and loss statements** and a **budgeted balance sheet**
- ▶ information about the tax obligations and responsibilities of your business.

The website business.gov.au has more information about business planning.

One of your most important decisions when starting a business is selecting the business structure that best suits your needs. Features of business structures and their tax implications are considered in *Business structures*. It is a good idea to seek legal or other professional advice about your particular circumstances before deciding on a specific structure.

A business needs to register with the ATO so that it can meet its tax obligations. Understanding how much and when taxes are due can assist a business to meet its legal obligations and prevent late payment penalties. Business taxes are explained in *Activity 3: Running a business: Tax obligations*.

Find out about the importance of preparing a business plan.

Business Tax Activity 1: What is a business?

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TASK 1

WHY GO TO THE TROUBLE?

Worksheet

YOU WILL:

- ▶ collaborate to identify the main components of a business plan and their importance to business success
- ▶ identify and categorise examples of poor planning
- ▶ explain the statement 'Businesses don't plan to fail, they fail to plan'

YOU WILL NEED:

- ▶ *Fact sheet: What is a business?*
- ▶ *Answer Sheet: Task 1 – Why go to the trouble?*

What is a business plan?

A business plan is a written document that describes in detail how a business, usually a new one, will achieve its short-term and long-term goals. It is a written plan that typically identifies strategies on how key elements of the business will contribute to the business goals.

Creating a business plan: the benefits

Lawyers, accountants, financial planners and the ATO all stress the importance of planning. The result of any application for finance or loans will depend on close scrutiny of the business plan. Planning is also a key contributor to business success.

COLLABORATIVELY GENERATE IDEAS AND SOLUTIONS

1. **Read** the *Fact sheet: What is a business*
2. **In groups, brainstorm:**
 - ▶ decisions you will need to make in relation to key aspects of the business (use what you already KNOW as well as information provided in the fact sheet)
 - ▶ how these decisions will improve the success of the business
 - ▶ problems these decisions might prevent.
3. **Record** the group's ideas on a large piece of paper, such as butcher's paper.
4. **Share** ideas with the rest of the class.
5. **Display** your group's ideas around the classroom along with the ideas of other groups.

Aspects of the business	Decisions that will need to be made	How will these decisions improve the success of the business?	What problems might these decisions prevent?
Business aims, structure and how it will operate			
Marketing and promotion			
Features of the industry			
Financial plan			
Tax obligations and responsibilities.			

DEVELOP AN EVIDENCE-BASED ARGUMENT

Scenario

Jo and Sam decided to quit their jobs and start a business selling imported jewellery. They knew where to go to buy cheap jewellery and there seemed to be a market for jewellery in their local suburb – there were four other stores that seemed to be always busy.

They travelled overseas and used most of their savings to buy jewellery to sell. They leased a small shop at the local shopping centre and used the rest of their savings to pay three-months' rent in advance. They thought they were ready. They had stock to sell, a space to sell from and someone to sell the stock (themselves) and one casual employee. They were now excited about starting their business.

However, the stock they ordered from overseas was delayed for two-weeks. When they went to clear the stock from customs, they had to pay import duties and GST– they hadn't budgeted for this and had to borrow money from their parents as they had used all their savings and were now two weeks without any pay. When they opened their doors for business, they made enough sales to pay wages for their casual staff member and themselves and to replace their stock. But the sales weren't as high as they expected and some customers complained that their prices were too high compared with other stores in the area.

Three-months passed and Jo and Sam received an invoice for the rent. They also received a business activity statement (BAS) from the ATO to complete. When they completed the BAS, they realised they owed pay as you go tax (PAYG) on wages and GST on sales. As they had spent their money on buying stock, they decided to have a sale offering up to 50% off the marked price of ALL stock.

6. For each aspect of the business, **identify** at least ONE mistake that Jo and Sam made in establishing and running their business.

Aspects of the business	Mistakes
Business aims, structure and how it will operate	
Marketing and promotion	
Features of the industry	
Financial plan	
Tax obligations and responsibilities.	

7. **Explain** the statement 'Businesses don't plan to fail, they fail to plan'. If possible, use evidence from Jo and Sam's experience.
