

Tax 101 Activity 1

Years 7-12

WHAT IS TAX AND WHY DO WE NEED IT?

Fact sheet

The materials in Tax 101 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.

Tax 101 explores the reasons tax is collected and examines how governments use tax to provide services needed by the community, and the role of the ATO.

WHAT IS TAX?

Tax is the money paid by individuals and businesses to government: federal, state or territory, and local. There are three levels of government in Australia; the Australian Government (also known as the federal government), state and territory governments, and local governments. These governments use their tax revenue to provide public goods and services needed by the community.

WHY PAY TAX?

Governments need to fund the services they provide to the community, such as education, health, defence and infrastructure such as roads. To do this they must collect money, which is called **revenue**, through the tax system.

Without taxes, the government would have no money to provide services. Without taxes, we would live in a very different society.

If asked whether it would be a good idea to get rid of taxes, most people would probably answer 'yes'. Paying less tax would mean that people had more money of their own to spend. But how would the government build and maintain roads, hospitals and schools? Who would fund police, jails and defence services? Some people are unable to earn an income. Without tax, the government would be unable to provide pensions, unemployment benefits or the Youth Allowance.

Who pays tax?

Tax is collected (levied) from individuals and businesses. The amount of tax levied is generally based on the amount spent on certain items or the level of income or profit.

- ▶ When individuals earn income – wages, commission etc – they pay income tax.
- ▶ A goods and services tax (GST) is included in the price of most goods and services.
- ▶ Companies pay company tax, an income tax on profits.
- ▶ Sole trader businesses pay income tax on their profits.

Taxes shift resources from individuals and businesses to the government. Government spending transfers these resources to other individuals, businesses and organisations. The combined effect of taxes and government spending has an important impact on income distribution in Australia.

WHO COLLECTS TAX?

In Australia there are three levels of government – Australian, state and territory, and local. Each has the right to collect taxes.

- ▶ The Australian Government collects the most revenue. On average, each year more than 80% of tax revenue comes from taxes such as income tax, the Medicare levy, the goods and services tax (GST), company tax, and excise duty.
- ▶ State or territory governments annually collect approximately 16% of total tax revenue from taxes such as payroll tax, stamp duty and land tax.
- ▶ Local governments in the same period collect about 3% of total tax revenue, largely from rates charged on the owners of property.
- ▶ GST, which is spent by the states and territories, is collected on their behalf by the Australian Government.



WHO SHOULD PAY TAX?

In general, the government believes the level of wealth and income should be taken into account in determining who pays tax and the amount they should pay.

The Australian Government has decided that some groups in the community do not have to pay income tax. For example:

- ▶ individuals who earn less than \$18,200 per year generally do not need to pay any tax. This amount is called the tax-free threshold
- ▶ people who receive certain pensions, such as the disability pension, do not need to pay any tax on these pensions because this income is classed as tax exempt
- ▶ a number of religious, charitable, scientific and educational organisations are exempt from paying tax.

Another factor to consider when deciding who should pay taxes, is to consider who benefits from the tax being collected. For example, passengers on a bus, motorists and the transport industry all benefit by using roads funded by taxes.

Taxes are also levied to discourage the consumption or use of certain products such as cigarettes and alcohol. Offering tax breaks for using renewable energy or alternative fuels are based on a desire to reduce the environmental impact of non-renewable energy sources, such as coal and oil.

TASK 1 KNOWING ABOUT TAX

Worksheet

YOU WILL:

- ▶ identify your existing knowledge about tax-related issues
- ▶ consider your attitude about tax

YOU WILL NEED:

- ▶ *Fact Sheet: What is tax and why do we need it*

EXPLORE YOUR KNOWLEDGE AND ATTITUDES

1. In pairs, **brainstorm** what you know about tax and record it in the diagram below.



2. On the continuum, **rate** how you value the need to know about tax? (one is the lowest value and 5 is the highest value)



3. Get started on Tax 101:

- ▶ **Read** Fact sheet: What is tax and why do we need it?
- ▶ Use the fact sheet information to **confirm** your current knowledge.
- ▶ Keep this page for the end of the module so you can **reflect** on your changing knowledge and values.

Go online and view the video 'The story of tax' at: <https://www.taxsuperandyou.gov.au/story-of-tax>