What you should know about ATO passive income if you are new

Taxation for Australian corporations is sophisticated. The tax amount depends on a company's turnover, turnover of its affiliates, and passive income. Thus, legislation guarantees the accuracy and quotas, where required. In this article, we are interested in ATO passive income part. We will make things clear for you.

Let us turn to the sources of the Australian Taxation Office (ATO). From the perspective of dealing with taxes, it is unspeakably valuable to know the way your passive income is about to be handled. The reason is the fact that it affects the amount of money your company is obliged to pay.

Beginning from 2018 and onwards, any corporate tax entity can gain taxation at a lower rate if a company satisfies the passive income threshold apart from the turnover threshold. However, the latter is also important to obtain. However, these entities must be defined as base rate entities to access the benefits. Taxation office documents claim this requirement.

Usually, the tax for companies is 30% if they do not take any further actions to reduce it. However, the lower tax rate consists of 26.0% this income year. Analytics expect it to descent by 25.0% in the coming 2022 year.

There is a way to calculate the threshold for passive profit. To gain the lower rate taxation, the sum of incomes does not exceed 80% of the company income that is assessable. ATO determines the following as sources of passive profit:

* Corporate distributions (and franking credits),
* payments for royalties and rents,
* interest income,
* gains on qualifying securities,
* net capital gains,
* earnings from a partnership,
* trust distributions derived from the above sources.

ATO listed all the related details on the document LCR 2019/5. It describes how the Сommissioner will apply the law and specifies details for passive income components. For instance, the above-mentioned royalty payment is withdrawn from your industrial, scientific, and commercial equipment. For more information, check [LCR 2018/D7 Base rate entities and base rate entity passive income](https://www.ato.gov.au/law/view/document?DocID=COD/LCR2018D7/NAT/ATO/00001).

The calculation has to be performed annually. When the amount is near the threshold it may cause some companies issues with franking credits.

If you plan to run your business, you should consider hiring a special consultant to answer your related questions. Also, governmental instances offer their help on official websites. Thus, knowing your particular situation and data, you may choose the taxation type you need.

We hope that we could reveal some secrets of this challenging topic. If you have questions, send them to us, and we gladly answer you in our next article.

We wish you success in your endeavors!