The Complete Australian Startup **Tax Guide**

Navigate tax obligations with confidence

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The Complete Australian Startup Tax Guide

Executive Summary

Navigating Australian tax obligations is one of the most challenging aspects of running a startup. Between GST registration thresholds, PAYG requirements, employee share schemes, R&D tax incentives, and contractor classifications, it's easy to feel overwhelmed—or worse, make costly mistakes.

This comprehensive guide cuts through the complexity to give you practical, actionable advice on managing your startup's tax obligations. Whether you're a solo founder just starting out or a scaling company with employees across borders, you'll find clear explanations of what you need to know, when you need to act, and how much it will cost.

Most importantly, this guide highlights the common mistakes that trigger ATO audits and penalties, helping you avoid the pitfalls that catch many Australian startups off guard. With the right knowledge and systems in place, tax compliance doesn't have to be a nightmare—it can become a routine part of running a healthy, sustainable business.

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Starting Out: The Essentials

What Taxes Do Australian Startups Need to Know About?

As an Australian startup, you'll potentially encounter:

Income Tax - On your business profits
GST (Goods and Services Tax) - A 10% consumption tax
PAYG Withholding - Tax withheld from employee wages
PAYG Instalments - Prepayments of your expected tax liability
Fringe Benefits Tax (FBT) - Tax on non-cash employee benefits
Superannuation - Mandatory retirement contributions (12% as of 2025)
Capital Gains Tax - Tax on asset sales including shares
Payroll Tax - State-based tax on wages (thresholds vary by state)

The First 90 Days: Tax Checklist

When starting your business, complete these tasks:

- [ ] Decide on your business structure (sole trader, company, partnership, trust)
- [ ] Register for an ABN (Australian Business Number) - FREE
- [ ] Register for GST if you expect $75,000+ turnover
- [ ] Set up a separate business bank account
- [ ] Choose and implement accounting software

- [ ] Understand if you need to withhold tax from workers
- [ ] Set up record-keeping systems (digital or physical)
- [ ] Register for PAYG withholding if hiring employees
- [ ] Book a consultation with a startup-focused accountant

Understanding Your Business Structure

Your business structure fundamentally affects how you're taxed. Here's what you need to know:

Sole Trader

How It Works:

- You and the business are legally the same entity
- Business income is taxed at your personal tax rates (19% to 47%)
- Simplest structure to set up and manage

Tax Implications:

- Income taxed at marginal rates: 0-18,200 (0%), 18,201-45,000 (19%), 45,001-120,000 (32.5%), 120,001-180,000 (37%), 180,001+ (45%)
- Plus 2% Medicare levy
- You report business income/expenses in your personal tax return
- Tax losses can offset other personal income

Best For: Testing an idea, freelancers, very small operations

Tax Rate Example: Earn $80,000 profit = pay approximately $17,547 in tax (including Medicare levy)

Company (Pty Ltd)

How It Works:

- Separate legal entity from you personally
- Company pays its own tax
- Directors can be employees and shareholders

Tax Implications:

- Flat corporate tax rate of 25% (for companies with turnover under $50M)
- Otherwise 30% tax rate
- Dividends paid to shareholders may carry franking credits
- More complex compliance requirements

- Cannot access 50% CGT discount (companies are ineligible)

Best For: Businesses seeking investment, liability protection, long-term growth

Tax Rate Example: Company earns $100,000 profit = pays $25,000 company tax

Partnership

How It Works:

- Business owned by 2+ people
- Each partner reports their share of income

Tax Implications:

- Partnership itself doesn't pay tax
- Each partner reports their share in personal tax return
- Taxed at individual marginal rates
- Partnership must still lodge a tax return

Best For: Professional services, joint ventures, co-founder arrangements

Trust

How It Works:

- Trustee holds assets for beneficiaries
- Highly flexible for distributing income

Tax Implications:

- Can distribute income to beneficiaries tax-effectively
- Beneficiaries pay tax at their marginal rates
- Undistributed income taxed at highest marginal rate (47%)
- Complex to set up and maintain
- Offers asset protection benefits

Best For: Family businesses, asset protection strategies, tax optimization

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ABN and Tax Registration

Australian Business Number (ABN)

When You Need It:

You need an ABN if you're running an enterprise, which includes:

- Selling products or services with intent to make a profit
- Operating a business of reasonable size and scale
- Engaging in commercial activities

Cost: FREE - Never pay for ABN registration. The official application through the Australian Business Register is always free.

How to Apply:

Visit the Australian Business Register (ABR) website: abr.gov.au
Complete the online application
Receive your ABN immediately (in most cases)

What You Need:

- Personal identification (driver's license or passport)
- Business details (name, structure, activity)
- For companies: your ACN (Australian Company Number) first

Important: Be wary of scam websites charging for ABN registration. The official government service is always free.

When You DON'T Need an ABN

- Hobby activities (no profit intent)
- One-off private sales
- Employed work (you're on someone else's payroll)

GST (Goods and Services Tax)

The Basics

GST is a 10% tax added to most goods and services sold in Australia. As a business, you collect GST from customers and pay GST on your business purchases, then remit the difference to the ATO.

When You MUST Register

You must register for GST within 21 days if:

- Your GST turnover is $75,000 or more per year
- You expect to reach $75,000 in the next 12 months
- You provide taxi or ride-sharing services (Uber, DiDi, etc.) - regardless of turnover

When You CAN Register (Voluntary)

Even if under the $75,000 threshold, you can voluntarily register. Benefits include:

- Claim GST credits on business purchases
- Look more established to clients
- Better cash flow if you spend more than you earn initially

How It Works

Example:

- You invoice a client $11,000 (includes $1,000 GST)
- You pay $5,500 for supplies (includes $500 GST)
- You remit to ATO: $1,000 - $500 = $500

Reporting Frequency

- Monthly: If turnover exceeds $20 million (or you choose to)
- Quarterly: Most small businesses (default)
- Annually: Only available for very small businesses (specific eligibility criteria)

BAS (Business Activity Statement)

You report GST through your BAS, typically due 28 days after each quarter:

- Quarter 1 (Jul-Sep): Due 28 October
- Quarter 2 (Oct-Dec): Due 28 February
- Quarter 3 (Jan-Mar): Due 28 April
- Quarter 4 (Apr-Jun): Due 28 July

GST-Free vs Input-Taxed

Some items are GST-free (you don't charge GST, but can claim credits):

- Most basic food items

- Some health and medical services
- Educational courses
- Exports

Some items are input-taxed (you don't charge GST and can't claim credits):

- Financial supplies (lending money)
- Residential rent

Common Mistakes

Delaying Registration

- Register within 21 days of hitting $75K threshold
- Late registration means you may owe GST on past sales where you didn't collect it

Not Including GST in Prices

- Clearly state if prices are GST-inclusive or exclusive
- Online businesses: ensure your pricing structure is clear

Missing BAS Deadlines

- Late lodgement = 1 penalty unit per 28 days (up to 5 units)
- 1 penalty unit = $330 (as of November 2024)
- Maximum penalty: $1,650

PAYG (Pay As You Go)

PAYG has two components that confuse many startups: PAYG Withholding and PAYG Instalments. They're completely different.

PAYG Withholding

What It Is:

Tax you withhold from payments to employees (and some contractors) and send to the ATO on their behalf.

When Required:

You must register for PAYG withholding if you:

- Hire employees
- Hire contractors who don't quote an ABN
- Voluntarily agree with a contractor to withhold tax

How It Works:

Calculate tax to withhold from each payment (use ATO tax tables)

Pay the withheld amount to the ATO (monthly or quarterly)
Provide payment summaries to workers annually
Report through Single Touch Payroll (STP)

Deadlines:

- Monthly reporters: 21st of following month
- Quarterly reporters: 28th of month after quarter end

PAYG Instalments

What It Is:

Prepayments toward your expected annual tax bill (for business and investment income).

When Required:

The ATO automatically enrolls you if:

- Individuals/sole traders: Business income $4,000+, tax payable $1,000+, estimated tax $500+
- Companies/super funds (GST registered): Instalment rate above zero

How It Works:

- ATO calculates your instalment amount based on last year's tax return
- You pay quarterly (usually)
- Instalments offset your final tax bill when you lodge your annual return
- You can vary instalments up or down if circumstances change

Deadlines:

Quarterly instalments due 28 days after quarter end:

- Q1: 28 October
- Q2: 28 February
- Q3: 28 April
- Q4: 28 July

Important: You only pay PAYG instalments if the ATO notifies you. Don't self-assess this requirement.

Income Tax by Business Structure

Sole Trader

Tax Rates (2024-25):

- $0 - $18,200: 0%
- $18,201 - $45,000: 19%
- $45,001 - $120,000: 32.5%
- $120,001 - $180,000: 37%
- $180,001+: 45%

Plus 2% Medicare Levy on taxable income

When to Pay:

- Annual tax return due 31 October (or later if using registered tax agent)
- PAYG instalments quarterly (if applicable)

Deductions:

Can claim business expenses against income in personal tax return

Company

Tax Rate:

- Small companies (turnover under $50M): 25%
- Other companies: 30%

When to Pay:

- Annual company tax return due 28 February following tax year
- Earlier (31 October) if overdue returns exist
- PAYG instalments quarterly

Distribution to Shareholders:

- Dividends can carry franking credits
- Franking = attaching company tax already paid to dividend
- Prevents double taxation of company profits

Example:

- Company earns $100,000 profit
- Pays $25,000 tax (25% rate)
- Distributes $75,000 as fully franked dividend
- Shareholder receives $75,000 + $25,000 franking credit
- Shareholder reports $100,000 income, credits $25,000 tax already paid

Partnership

Tax Treatment:

- Partnership lodges annual return
- No tax payable by partnership itself
- Each partner reports their share in personal return
- Taxed at individual marginal rates

Distribution:

- Usually split according to partnership agreement
- Can be equal or based on contribution/agreement

Trust

Tax Treatment:

- Can distribute income to beneficiaries
- Beneficiaries pay tax at their marginal rates
- Undistributed income taxed at 47% (trustee tax rate)
- Trust lodges annual return

Flexibility:

- Can distribute different amounts to different beneficiaries each year
- Allows income splitting for tax efficiency
- Must be done before 30 June each year

Startup Deductions and R&D Tax Incentive

Common Startup Deductions

Immediate Deductions:

- Office supplies and software
- Marketing and advertising
- Professional fees (accountant, lawyer)
- Insurance
- Bank fees and merchant fees
- Website hosting and domain registration

- Subscriptions and memberships
- Employee wages and superannuation
- Contract labor
- Travel for business purposes
- Home office expenses (if working from home)

Depreciated Over Time:

- Equipment over $1,000 (computers, furniture, machinery)
- Vehicles (depreciation rules apply)
- Leasehold improvements

Not Deductible:

- Capital costs (buying the business or business assets for resale)
- Private or domestic expenses
- Fines and penalties
- Income tax
- Some entertainment expenses

R&D Tax Incentive

The R&D Tax Incentive is one of Australia's most valuable programs for startups, providing a 43.5% refundable tax offset for eligible companies.

Eligibility Requirements:

Entity Type: Australian incorporated company
Minimum Spend: $20,000 in eligible R&D expenses per year
R&D Activities: Must conduct eligible R&D activities
Registration: Register with AusIndustry before claiming

Who Qualifies:

- Companies with aggregated turnover under $20 million
- Get 43.5% refundable offset (= 25% company tax rate + 18.5% premium)
- Can receive cash refund even if no tax payable

What Counts as R&D:

Core R&D Activities:

- Experimental activities generating new knowledge
- Products, processes, services, or devices that are new or improved
- Outcome cannot be known in advance based on current knowledge
- Systematic progression of work based on scientific principles

Supporting R&D Activities:

- Directly related to core R&D
- Examples: testing, prototyping, data analysis, pilot plants

Common Startup R&D Examples:

- Software development (new features, not routine coding)
- Product prototyping and testing
- New manufacturing processes
- Advanced data analytics and algorithms
- Scientific research and trials

What DOESN'T Qualify:

- Market research or sales activities
- Management studies
- Artistic development
- Routine testing or data collection
- Activities related to gambling or tobacco (from 1 July 2025)

Application Process:

Conduct eligible R&D activities during financial year
Keep detailed records of R&D spend and activities
Register R&D activities with AusIndustry (due 30 April following tax year end)
Claim offset in company tax return
Receive refund or offset against tax payable

Deadline: 30 April following the end of the financial year (e.g., 30 April 2025 for FY 2023-24)

Costs:

- DIY: Free (but time-intensive and risky)
- R&D Consultant: $5,000 - $15,000+ depending on claim size
- Success fee models: 15-25% of refund received

Important Notes:

- 51% of claimants are less than 10 years old (startups dominate)
- Average refund for small companies: $40,000 - $100,000+
- ATO and AusIndustry conduct reviews—accurate record-keeping is essential
- Incorrect claims attract 25% penalties plus interest

Fringe Benefits Tax (FBT)

What Is FBT?

FBT is tax on non-cash benefits provided to employees. Unlike other taxes, the employer pays FBT, not the employee.

FBT Rate: 47% of the grossed-up value of benefits

FBT Year: 1 April to 31 March (different from normal tax year)

Common Fringe Benefits

Subject to FBT:

- Company cars for private use
- Car parking (in certain circumstances)
- Gym memberships
- Entertainment (meals, tickets, events for employees)
- Low-interest or interest-free loans
- Private health insurance
- Living away from home allowances
- Expense payments (private portion)

Exempt or Reduced FBT:

- Work-related items (laptop, mobile phone, protective clothing)
- Minor benefits under $300 (infrequent and irregular)
- Portable electronic devices (one per year)
- Work-related mobile phones
- Certain remote area benefits
- Electric vehicles (100% exemption for eligible EVs from 1 July 2022)

How FBT Works

Example:

- You provide an employee a gym membership worth $1,000/year
- Grossed-up value: $1,000 ÷ 0.5345 = $1,871
- FBT payable: $1,871 × 47% = $879

Reportable Fringe Benefits:

If total taxable value exceeds $2,000 in an FBT year, the amount appears on the employee's income statement as "Reportable Fringe Benefits Amount" (RFBA). This doesn't create additional tax for the employee but affects:

- HECS/HELP repayment thresholds
- Medicare levy surcharge
- Private health insurance rebate
- Child support calculations

FBT Return and Payment

Due Date: 21 May following FBT year end

Who Must Lodge:

- Any employer providing fringe benefits above the threshold
- Even if benefits are exempt, you may need to lodge

Startup Implications

Perks to Reconsider:

Many startup perks (free food, entertainment, gym) attract FBT at 47%. This makes them expensive:

- $1,000 benefit = $879 FBT = $1,879 total cost

Smarter Alternatives:

- Salary sacrifice into super (concessional)
- Work-related equipment
- Professional development
- Salary increases (taxed at employee's rate, not 47%)

Capital Gains Tax (CGT) for Equity and Shares

What Is CGT?

CGT is tax on the profit when you sell or dispose of an asset, including shares in your startup.

Key Point: CGT isn't a separate tax—capital gains are added to your taxable income and taxed at your marginal rate.

The 50% CGT Discount

Eligibility:

- Australian residents (individuals and trusts only—companies are ineligible)
- Asset held for 12+ months
- Acquired after 19 September 1985

How It Works:

- Calculate capital gain (sale price minus cost base)
- Apply 50% discount
- Add remaining 50% to taxable income

Example:

- You sell shares for $200,000 (bought for $50,000)
- Capital gain: $150,000
- 50% discount: $75,000
- Taxable amount: $75,000 (taxed at your marginal rate)
- If your marginal rate is 37%: Tax = $27,750

Without Discount (held less than 12 months):

- Taxable amount: $150,000
- Tax at 37%: $55,500

Startup Founders and CGT

Founder Shares:

- Often issued at nominal value ($1)
- When you sell (exit), CGT applies on the gain
- Hold for 12+ months to access 50% discount

Important Timing:

- Date shares issued = start of 12-month holding period
- For options: holding period starts when shares acquired (after exercise), NOT when option granted

Reducing CGT:

- Hold assets 12+ months for discount
- Offset capital gains with capital losses
- Consider timing of sale (tax year, other income)
- Explore small business CGT concessions (if eligible)

Small Business CGT Concessions

If you qualify as a small business, you may access additional concessions:

15-year exemption (100% exempt if owned 15+ years and retiring)
50% active asset reduction (additional 50% discount after general 50% discount)
Retirement exemption (up to $500,000 CGT-free)
Rollover (defer CGT by acquiring replacement asset)

Eligibility Tests:

- Annual turnover under $2 million, OR
- Net assets under $6 million

Early Stage Investor CGT Exemption

For investors (not founders) in Early Stage Innovation Companies (ESICs):

- 10-year CGT exemption on ESIC shares
- Must hold for 12+ months
- Maximum investment qualifying: $200,000 per year

Employee Share Schemes (ESS)

Employee Share Schemes are a powerful tool for startups to attract and retain talent without high cash salaries. The tax treatment varies significantly depending on whether you qualify for the startup concessions.

General ESS Rules (Non-Startup)

Tax Point:

Employees are taxed upfront on the discount they receive on shares or options (difference between market value and what they paid).

Discount:

The discount is included in their assessable income in the year granted, taxed at marginal rates.

Startup ESS Concessions

Introduced in 2015, these concessions make ESS far more attractive for startups.

Key Benefits:

Tax Deferral: Employees only taxed when they sell shares/options, not when granted or exercised

Capital Gains Treatment: Any gain is on capital account (eligible for 50% CGT discount if held 12+ months)

Eligibility Requirements (Company):

Your company qualifies if:

- Not listed on any stock exchange
- Incorporated less than 10 years ago
- Aggregated turnover under $50 million
- Australian resident or holding company is Australian resident

Eligibility Requirements (Shares/Options):

For shares:

- Discount must be no more than 15% of market value

For options:

- Exercise price must be at least equal to market value at grant

Employee Eligibility:

- Must be an employee or contractor
- Cannot hold more than 10% of company
- No associates can hold more than 10%

How Tax Deferral Works:

Without Startup Concession:

- Employee receives options worth $10,000 discount
- Taxed immediately: $10,000 added to income (tax at marginal rate)
- Example: 37% rate = $3,700 tax due (but no cash received)

With Startup Concession:

- Employee receives options with no upfront tax
- Exercises options when company is successful
- Sells shares years later
- Pays CGT on total gain at sale
- 50% discount applies if held 12+ months from exercise

Example:

- 2020: Granted 10,000 options, exercise price $1 (market value)
- 2023: Exercise options, pay $10,000, receive shares now worth $100,000

- No tax due yet
- 2025: Sell shares for $500,000
- Capital gain: $500,000 - $10,000 = $490,000
- 50% discount: $245,000 taxable
- Tax at 45%: $110,250

ESOP (Employee Share Option Plan)

An ESOP is a specific type of ESS using options rather than shares.

Why Options?

- Employees aren't shareholders until they exercise
- Aligns incentives (options only valuable if company grows)
- Employees can choose when to exercise (and pay)

Vesting:

Options typically vest over time (e.g., 4 years with 1-year cliff), meaning:

- Year 1: No options vest (cliff)
- Years 2-4: 25% vest each year
- Employees must stay employed to receive options

Common ESS Structures

Free or discounted shares (up to 15% discount under startup concessions)
Options (right to buy shares at set price in future)
Performance rights (convert to shares when conditions met)

Setting Up an ESS

Steps:

Get a professional valuation (required for tax purposes)
Draft ESS plan documents (legal assistance recommended)
Set vesting schedule and exercise terms
Obtain board approval
Issue shares/options to employees
Provide disclosure documents
Maintain ESS register
Report to ATO and employees

Costs:

- Valuation: $2,000 - $10,000
- Legal drafting: $5,000 - $15,000
- Ongoing administration: $1,000 - $5,000/year
- ESS platform (e.g., Cake Equity): $200 - $500/month

Record-Keeping for ESS

You must keep detailed records:

- Grant dates and values
- Vesting schedules
- Exercise dates and prices
- Market values at key dates
- Employee details and share holdings

Superannuation Obligations

The Basics

Superannuation (super) is Australia's retirement savings system. Employers must contribute to employees' super funds.

Super Guarantee Rate:

- Current rate: 12% (as of 1 July 2025)
- Previous rate: 11.5% (1 July 2024 - 30 June 2025)

Calculation:

Super is calculated on "ordinary time earnings" (OTE):

- Base salary/wages
- Commissions
- Shift loadings
- Allowances

NOT included in OTE:

- Overtime payments
- Reimbursements
- Lump sum payments for unused leave

When You Must Pay Super

For Employees:

You must pay super if they:

- Are 18 years or older, OR

- Are under 18 and work more than 30 hours per week

Earnings Threshold:

No minimum threshold—you pay from the first dollar earned.

For Contractors

This is where it gets tricky. You may need to pay super to contractors if you pay them:

- Mainly for their labor (more than 50% of contract value is labor)
- For personal labor (they do the work personally, can't delegate)
- To perform the work (payment not dependent on a specific result)

Important: Having an ABN doesn't exempt them from super.

Exception:

If you contract with a company, trust, or partnership (not an individual), you generally don't pay super.

Use ATO's Tools:

- Employee/contractor decision tool
- Superannuation guarantee eligibility tool

Payment Deadlines

Super must be paid quarterly by these dates:

- 1 July – 30 September: Due 28 October
- 1 October – 31 December: Due 28 January
- 1 January – 31 March: Due 28 April
- 1 April – 30 June: Due 28 July

Critical: Payment must be received by the super fund by these dates, not just initiated.

Tax Deduction:

To claim a tax deduction in a given year, super must be paid by 30 June.

Penalties for Late or Non-Payment

Super Guarantee Charge (SGC):

If you miss a deadline, you cannot pay into the employee's fund. Instead, you must:

Lodge an SGC statement with the ATO
Pay the SGC to the ATO, which includes:

- The original super amount
- Interest (10% p.a. on the shortfall)

- Administration fee ($20 per employee per quarter)

Key Consequence: SGC is NOT tax-deductible (unlike on-time super payments).

Example:

- Owe $1,000 super (due 28 October)
- Miss deadline
- SGC calculation:
- Super shortfall: $1,000
- Interest (3 months at 10% p.a.): ~$25
- Admin fee: $20
- Total SGC: $1,045
- Plus, the $1,045 is not tax-deductible

How to Pay Super

Methods:

SuperStream (mandatory for all employers)
Clearing house (free for small employers through ATO's Small Business Superannuation Clearing House)
Payroll software (Xero, MYOB, QuickBooks integrate SuperStream)

SuperStream Requirements:

- Electronic payment
- Electronic messaging of payment data
- Meets data and e-commerce standards

Choice of Fund

Employees can generally choose their super fund. You must:

- Provide a Standard Choice Form within 28 days of employment
- Pay into their chosen fund (if complying fund)
- If they don't choose, pay into your default fund (must be MySuper product)

Record-Keeping

Keep records for at least 10 years:

- Employee super details
- Amounts paid
- Payment dates
- Fund details

Contractor vs Employee Classification

Getting this wrong is one of the most expensive mistakes startups make. Misclassifying employees as contractors can lead to huge bills for back taxes, super, and penalties.

Why It Matters

If Employee:

- Withhold PAYG tax
- Pay 12% superannuation
- Provide paid leave entitlements
- Workers compensation insurance
- Payroll tax (state-based, if above threshold)

If Contractor:

- No PAYG withholding (if they quote ABN)
- Potentially no super (unless mainly for labor)
- No leave entitlements
- Generally less regulatory burden

The Legal Test (Post-2022)

In 2022, the High Court changed the approach in CFMMEU v Personnel Contracting and ZG Operations v Jamsek.

New Approach:

Focus on the written contract, not just how the relationship operates in practice.

What the ATO Looks At:

The legal rights and obligations in the contract
The totality of the relationship
Whether the reality matches the contract

Key Factors

Control:

- Employees: Work under direction and control
- Contractors: Control how they work, when, and where

Independence:

- Employees: Integrated into business
- Contractors: Run their own business, multiple clients

Financial Risk:

- Employees: Paid regardless of outcome
- Contractors: Bear financial risk (e.g., fix defects at own cost)

Tools and Equipment:

- Employees: Employer provides
- Contractors: Generally provide their own

Delegation:

- Employees: Must do work personally
- Contractors: Can often delegate or subcontract

Ability to Subcontract:

- Employees: Cannot
- Contractors: Can engage others to do the work

Commercial Basis:

- Employees: Paid for time (wages/salary)
- Contractors: Paid for result or quote for job

The ATO's Risk Framework

The ATO categorizes businesses into risk levels:

High Risk (Increased Audit Chance):

- Didn't obtain professional advice on classification
- Multiple indicators of employment but treated as contractor
- Pattern of misclassification

Low Risk:

- Obtained professional advice
- Clear contractor relationship
- Appropriate contracts in place

Fair Work Changes (August 2024)

From 26 August 2024, Fair Work introduced additional rules to help distinguish employees from contractors.

"Sham Contracting" is illegal and carries penalties.

What to Do

Step 1: Get the Contract Right

- Clearly document the relationship
- Use lawyer-drafted contractor or employment agreements
- Ensure reality matches the contract

Step 2: Use ATO Tools

- Employee/Contractor Decision Tool (ato.gov.au)
- Seek professional advice for unclear situations

Step 3: Regular Reviews

- Review classifications annually
- Adjust if working relationship changes

If You Get It Wrong

Consequences:

- Back-pay PAYG tax (you're liable, not the worker)
- Back-pay superannuation + Super Guarantee Charge
- Penalties up to 25% for failure to take reasonable care
- Interest on unpaid amounts
- Potential Fair Work claims for entitlements

What to Do:

Identify the error immediately
Seek professional advice
Consider voluntary disclosure to ATO (reduces penalties up to 80%)
Reclassify going forward

Co-founder Equity and Tax

Equity Splits

When co-founders split equity, there are generally no immediate tax consequences if:

- Shares issued at formation at nominal value
- Each founder pays for their shares (even if just $1)
- No discount or benefit provided

Vesting Schedules for Founders

Many startups implement founder vesting to protect against a co-founder leaving early.

How Vesting Works:

- Founders receive shares subject to "reverse vesting"
- If they leave before vesting completes, company can buy back unvested shares (usually at cost)
- Typical schedule: 4 years with 1-year cliff

Tax Implications:

- No tax on grant (shares purchased at market value)
- CGT applies when shares eventually sold
- Holding period starts from grant (if shares owned, even if subject to vesting restrictions)

Co-founder Option Pools

Sometimes co-founders receive options instead of shares.

Tax Treatment:

- No tax on grant (if exercise price = market value)
- No tax on exercise (under startup ESS concessions)
- CGT on sale (holding period starts at exercise)

Equity for Services

If a co-founder receives equity for past or future services (rather than paying for shares):

Tax Risk:

- May be treated as income (taxed at marginal rates)
- Not capital gains

How to Avoid:

- Co-founders should pay (even nominal amount) for shares
- Document equity is for taking on risk and commitment, not payment for services
- Issue shares at formation at nominal value

Founder Loan Accounts

Often co-founders loan money to the startup for expenses.

Tax Treatment:

- Loans are not income to the company
- Repayments are not deductible
- Interest paid to founders may be deductible (if charged)
- Interest received by founders is assessable income

Raising Capital: Tax Treatment

Equity Raises (Shares)

For Startups:

- Funds received for issuing shares are not taxable income
- Treated as capital, not revenue
- No deductions for costs of raising equity (e.g., legal fees)

For Investors:

- No immediate tax consequences
- Cost base for CGT = amount paid
- CGT triggered on exit (sale of shares)
- May qualify for ESIC incentives (20% tax offset + 10-year CGT exemption)

SAFE Notes (Simple Agreement for Future Equity)

Tax Treatment:

- SAFEs are generally equity, not debt (no obligation to repay)
- Funds received are not taxable income
- No interest deductibility (no interest paid)
- Converts to shares on trigger event

For Investors:

- CGT applies when SAFE converts or is sold
- Holding period starts when SAFE acquired
- Must be structured carefully to qualify as eligible venture capital investment

Important: Check if SAFE qualifies for ESVCLP/VCLP concessions (structure matters).

Convertible Notes

Tax Treatment:

- Convertible notes are generally debt

- Funds received are not taxable income
- Interest paid is tax-deductible (for company)
- Converts to shares on trigger event

For Investors:

- Interest received is assessable income
- CGT applies on conversion or sale

For Company:

- Interest expense is deductible
- Conversion to shares is not a taxable event

Grants (Non-Repayable)

Tax Treatment:

- Generally assessable income unless specifically exempt
- Some R&D and innovation grants are non-assessable
- Check specific grant terms

Example:

- $50,000 government grant for innovation
- If assessable: included in taxable income
- If company tax rate 25%: $12,500 tax payable

Loans (Repayable Debt)

Tax Treatment:

- Loan principal received is not taxable income
- Loan repayments are not tax-deductible
- Interest paid is tax-deductible

International Transactions and Hiring

Hiring Foreign Workers

Foreign Workers in Australia

Tax Obligations:

- If they're in Australia working, they may be Australian tax residents
- Payroll, super, workers comp, and PAYG withholding apply

- Check residency status (affects tax rates)

Residency Test:

- Resides in Australia (temporary visa holders may qualify)
- Domicile in Australia with permanent place of abode
- In Australia for 183+ days in tax year (automatic resident)
- Member of super scheme for Commonwealth employees

Working Holiday Makers:

- Special tax rates apply (15% up to $45,000)

Workers Based Overseas (Remote)

Key Risk: Permanent Establishment (PE)

If workers abroad create a "permanent establishment" in that country, your Australian startup may be taxable there.

PE Indicators:

- Fixed place of business (office, warehouse)
- Dependent agents acting on your behalf
- Duration of presence (varies by country)

Tax Obligations if PE Exists:

- Register for tax in foreign country
- File tax returns there
- Potentially pay foreign taxes
- Social security contributions

How to Minimize Risk:

- Engage workers as contractors via their own entity
- Limit authority of foreign workers
- Avoid fixed offices abroad
- Get specialist advice before hiring

Contractor vs Employee (International)

Classification Still Matters:

- Australian employment law may apply even if worker is abroad (in some cases)
- Check foreign labor laws (worker may be employee under local rules)

Tax Withholding:

- Generally no PAYG withholding if:
- Worker is non-resident
- Income is foreign-sourced
- But check Double Tax Agreements (DTAs)

International Sales and GST

Exports (Sales to Overseas Customers):

- Generally GST-free
- You don't charge GST
- You can claim GST credits on related purchases

Imports (Purchasing from Overseas):

- May be subject to GST at border (if goods exceed threshold)
- Services from overseas suppliers may be subject to reverse charge

Transfer Pricing

If you have related entities overseas (e.g., subsidiary, parent company):

Arm's Length Principle:

- Transactions must be priced as if between unrelated parties
- ATO scrutinizes related-party transactions
- Documentation required (transfer pricing documentation)

When to Worry:

- Revenue over $2 million and international related-party dealings
- Need transfer pricing policies and documentation

Loss Carry-Forward Rules

Many startups operate at a loss in early years. Understanding loss carry-forward rules helps you maximize future tax benefits.

How It Works

If your business makes a tax loss (deductible expenses exceed assessable income):

- You can carry the loss forward indefinitely
- Offset against future taxable income
- Reduce tax payable in profitable years

Example:

- Year 1: Loss of $100,000
- Year 2: Loss of $50,000

- Year 3: Profit of $200,000
- Offset both losses: $200,000 - $100,000 - $50,000 = $50,000 taxable income
- Tax saved: ($150,000 × 25%) = $37,500

Rules by Business Structure

Sole Traders

- Can offset current-year business losses against other income (e.g., wages)
- If still a loss, carry forward indefinitely

Companies

Continuity of Ownership Test (COT):

- Must maintain same majority ownership (>50%) from when loss incurred until when used
- If ownership changes, losses may be forfeited

Same/Similar Business Test:

- If COT fails, can still use losses if:
- Company conducts the same business, OR
- Company conducts a similar business (for losses from 2015-16 onward)

Startup Friendly: The "similar business test" (introduced for startups) allows pivoting while keeping losses.

Example:

- 2020: Company makes $100,000 loss (Founders own 100%)
- 2021: Raise capital, founders now own 40% (ownership change)
- Fail COT
- Pass similar business test (still in same industry)
- Can still use the loss

Trusts

- Losses quarantined in the trust
- Can offset against future trust income if control/ownership tests passed
- Cannot distribute losses to beneficiaries

Partnerships

- Each partner's share of loss reported in their personal return
- Offset against personal income or carry forward individually

Claiming Losses

Order of Use:

- Losses must be claimed in the order they were incurred (oldest first)

Cannot Cherry-Pick:

- If you have taxable income, you must use available losses
- Cannot choose to pay tax and save losses for later

Loss Carry-Back (Limited)

Temporary Measure (2019-20 to 2022-23):

- Companies could carry-back losses to offset tax paid in prior years (refund)
- Only available for losses in 2019-20, 2020-21, 2021-22, 2022-23
- Only useful if you had taxable income in prior years
- Startups with only losses can't benefit

Record-Keeping Requirements

Good record-keeping is not optional—it's a legal requirement and your best defense in an audit.

How Long to Keep Records

Standard: 5 Years

- Most tax records must be kept for 5 years from the later of:
- When you prepared or obtained the record, OR
- Completed the transaction

Exceptions:

Record Type	Retention Period
Most tax records	5 years
Companies (ASIC requirement)	7 years
Superannuation records	10 years
Depreciating assets	5 years after disposal
CGT assets	5 years after disposal

Example (CGT Asset):

- 2020: Buy property for $500,000
- 2025: Sell property
- Keep records until 2030 (5 years after sale)

What Records to Keep

Income Records:

- Invoices issued
- Sales receipts
- Bank statements
- Payment summaries
- Interest and dividend statements
- Capital gains records

Expense Records:

- Invoices received
- Receipts (for all deductions claimed)
- Bank and credit card statements
- Vehicle logbooks (if claiming car expenses)
- Home office records (if claiming home office)
- Depreciation schedules

Employee Records:

- Employment contracts
- Timesheets
- Payroll records
- PAYG withholding records
- Super contribution records
- Leave records

GST Records:

- Tax invoices (if claiming GST credits over $82.50)
- BAS records
- GST calculations

Share/Equity Records:

- Share registers
- Issue and transfer documents
- Market valuations
- ESS grant and exercise records
- Capital raising documents

Format: Digital vs Physical

ATO Accepts Both:

- Paper records
- Digital records (scanned or born-digital)

Requirements for Digital:

- True and clear reproduction of original
- Readable and accessible for 5+ years
- Secure from alteration

Best Practice:

- Scan all paper receipts immediately
- Use cloud storage with backups
- Organize by tax year and category
- Export data from accounting software annually

What Happens If You Don't Keep Records

Consequences:

- ATO may estimate your income (usually high estimate)
- Denied deductions (no record = no deduction)
- Penalties for failing to keep proper records
- Makes audits extremely painful and expensive

Penalty Example:

- Missing records for $20,000 in claimed deductions
- ATO disallows all $20,000
- Additional tax (at 25% company rate): $5,000
- Penalty for failure to keep records: up to $5,550

Tax Calendar and Key Dates

Never miss a tax deadline. Late lodgment triggers penalties and interest.

Financial Year

Australia's tax year: 1 July to 30 June

Example: 2024-25 financial year = 1 July 2024 to 30 June 2025

Key Dates Cheat Sheet

Date	Obligation
14 July	STP finalization deadline (employers)

| 28 July | Q4 BAS due (Apr-Jun) |

| 28 July | Q4 PAYG instalment due |

| 28 July | Q4 Super due (Apr-Jun) |

| 14 August | PAYG withholding annual report due |

| 28 October | Q1 BAS due (Jul-Sep) |

| 28 October | Q1 PAYG instalment due |

| 28 October | Q1 Super due (Jul-Sep) |

| 31 October | Individual tax returns due (self-lodgers) |

| 31 October | Companies with overdue returns |

| 28 January | Q2 BAS due (Oct-Dec) |

| 28 January | Q2 PAYG instalment due |

| 28 January | Q2 Super due (Oct-Dec) |

| 28 February | Company tax returns due |

| 28 April | Q3 BAS due (Jan-Mar) |

| 28 April | Q3 PAYG instalment due |

| 28 April | Q3 Super due (Jan-Mar) |

| 30 April | R&D registration deadline (AusIndustry) |

| 21 May | FBT return due (for FBT year 1 Apr - 31 Mar) |

| 30 June | End of financial year |

| 30 June | Super payment deadline (for tax deduction in current year) |

Monthly Deadlines (If Applicable)

Monthly BAS Lodgers:

- Due 21st of following month

Monthly PAYG Withholders:

- Due 21st of following month

Using a Tax Agent

If you use a registered tax agent, you automatically get extended lodgment dates:

- Individual tax returns: March - May 2026 (varies by agent)

- Company returns: Generally extended 3-6 months

Benefits:

- More time to prepare
- Professional expertise
- Reduced error risk

Costs:

- See "Cost Guide for Professional Services" below

Setting Up Reminders

Best Practices:

- Set calendar reminders 1 week before deadlines
- Use accounting software auto-reminders
- Subscribe to ATO's email updates
- Create an annual tax calendar (print and post in office)

Common Tax Mistakes to Avoid

Learn from others' expensive errors. Here are the most common tax mistakes Australian startups make:

1. Poor Record-Keeping

The Mistake:

- Lost receipts
- No proper invoice system
- Mixing personal and business expenses
- No backup of digital records

The Consequence:

- Denied deductions (no record = no claim)
- Estimated assessments (ATO guesses your income—always high)
- Audit nightmare

How to Avoid:

- Use accounting software from day one
- Separate business bank account and credit card
- Digitize receipts immediately (photo with app)
- Monthly reconciliation

2. Missing GST Registration Deadline

The Mistake:

- Turnover hits $75,000
- Forget to register within 21 days
- Continue trading without collecting GST

The Consequence:

- Owe GST on all sales (even though you didn't collect it)
- Cannot claim GST credits on purchases
- Penalties and interest

How to Avoid:

- Monitor turnover monthly
- Register as soon as you hit or approach $75K
- Set up a trigger in accounting software

3. Misclassifying Workers

The Mistake:

- Treating employees as contractors
- Not paying super to eligible contractors
- Ignoring ABN withholding rules

The Consequence:

- Back-pay PAYG tax
- Back-pay super + SGC
- Penalties (up to 25%)
- Fair Work claims

How to Avoid:

- Use ATO decision tools
- Get professional advice for uncertain situations
- Document classification rationale
- Review annually

4. Incorrect R&D Claims

The Mistake:

- Claiming non-eligible activities
- Inadequate documentation
- Inflating hours or costs
- Not registering with AusIndustry

The Consequence:

- Claim denied or reduced
- Repay refund + 25% penalty + interest
- Example: $100,000 claim denied = repay $100,000 + $25,000 penalty + $10,000 interest

How to Avoid:

- Understand eligible activities
- Keep contemporaneous records
- Use R&D consultant for first claim
- Be conservative with classifications

5. Missing Tax Deadlines

The Mistake:

- Late BAS lodgment
- Late super payments
- Late tax return

The Consequence:

- Failure to Lodge penalties (1 penalty unit per 28 days, max 5)
- 1 penalty unit = $330 (as of Nov 2024)
- Maximum penalty: $1,650
- Super Guarantee Charge (not deductible)
- Interest on late payments (General Interest Charge)

How to Avoid:

- Calendar reminders
- Use a tax agent (extended deadlines)
- Set up automatic payments
- Lodge on time even if can't pay (payment plans available)

6. Mixing Personal and Business Expenses

The Mistake:

- Using business account for personal expenses
- Claiming personal expenses as business deductions
- No clear separation

The Consequence:

- Denied deductions
- Penalties for false/misleading statements (up to 75%)
- ATO loses trust in your record-keeping

How to Avoid:

- Separate bank accounts
- Business credit card only for business
- If mixed, clearly document business portion
- Never claim private/domestic expenses

7. Undeclared Income

The Mistake:

- Cash sales not recorded
- Crypto gains not reported
- Side income omitted
- Bank interest forgotten

The Consequence:

- Penalties up to 75% of tax shortfall
- Criminal prosecution (in serious cases)
- ATO data-matching will catch it

How to Avoid:

- Record ALL income
- Include all bank accounts in reconciliation
- Report cryptocurrency transactions
- Assume ATO knows (they have data-matching)

8. Continuous Business Losses

The Mistake:

- Running at a loss year after year (especially sole traders)
- Claiming hobby expenses as business deductions

The Consequence:

- ATO may deem it a "hobby" not a business
- Deny all business deductions
- Reassess prior years

How to Avoid:

- Have a profit-making intent
- Keep business plan showing path to profitability
- If losses continue, review structure (company may be better)

9. Lifestyle vs Income Mismatch

The Mistake:

- Declaring $50,000 income

- Buying $2M house, luxury car, overseas trips

The Consequence:

- ATO investigation (data-matching flags large purchases)
- Must explain source of funds
- Potential audit

How to Avoid:

- Declare all income
- If using savings/investments, keep clear records
- Be aware ATO tracks property, vehicle, and luxury purchases

10. Ignoring Superannuation Deadlines

The Mistake:

- Paying super late
- Missing 30 June deadline for tax deduction

The Consequence:

- Super Guarantee Charge (not deductible)
- Lost tax deduction
- Penalties

Example:

- $10,000 super due 28 July
- Paid 5 August
- Lose $10,000 deduction = $2,500 extra tax (at 25%)
- Plus SGC penalties

How to Avoid:

- Pay super on time (28th of month after quarter)
- For 30 June deduction, pay by 30 June (not 28 July)
- Set up automatic payments

ATO Audit Red Flags

The ATO uses sophisticated data-matching and risk-profiling to select audits. Here's what triggers their attention:

1. Late or Inconsistent Lodgments

Red Flag:

- BAS, PAYG, or tax returns consistently late
- Pattern of late lodgment

Why It Matters:

- Suggests poor record-keeping or financial difficulty
- ATO assumes something to hide

How to Avoid:

- Lodge on time, every time
- Use a tax agent for automatic extensions

2. Disproportionate Deductions

Red Flag:

- Deductions much higher than industry benchmarks
- Example: $15,000 deductions on $50,000 income (30% ratio vs industry average 10%)

Why It Matters:

- ATO has benchmarks for every industry
- Outliers are flagged automatically

How to Avoid:

- Only claim legitimate business expenses
- Keep detailed records justifying high deductions
- Check ATO's Small Business Benchmarks for your industry

3. Continuous Business Losses

Red Flag:

- Business losses year after year (especially sole traders)
- No clear path to profitability

Why It Matters:

- ATO questions if it's a genuine business or hobby
- Hobbies can't claim business deductions

How to Avoid:

- Have a clear business plan
- Show genuine profit-making intent
- If losses continue, review business structure

4. Cash-Only Businesses

Red Flag:

- No electronic payment methods
- High cash transactions

Why It Matters:

- ATO assumes cash = tax evasion
- Cash businesses are audited more frequently

How to Avoid:

- Accept card payments and bank transfers
- Record ALL cash sales
- Bank all cash daily (creates paper trail)

5. Lifestyle vs Declared Income

Red Flag:

- Modest declared income but high-value purchases (property, cars, boats)

Why It Matters:

- ATO data-matches property purchases, luxury vehicles, overseas travel
- Must explain source of funds

How to Avoid:

- Declare all income
- If using savings/gifts/inheritance, keep records
- Be aware ATO tracks major purchases

6. Undeclared Income

Red Flag:

- Bank deposits exceed declared income
- Crypto sales not reported
- Rental income omitted

Why It Matters:

- ATO receives data from banks, crypto exchanges, property records
- Data-matching flags discrepancies instantly

How to Avoid:

- Declare ALL income
- Include all bank accounts in reporting
- Report cryptocurrency, foreign income, rental income

7. Below Industry Benchmarks

Red Flag:

- Business performance significantly worse than similar businesses
- Example: Café reporting 20% gross profit margin when industry average is 65%

Why It Matters:

- Suggests under-reporting of sales

How to Avoid:

- Check ATO Small Business Benchmarks for your industry
- Be prepared to explain if below benchmark
- Keep detailed records

8. High Cash Deposits

Red Flag:

- Large or frequent cash deposits
- Unexplained deposits

Why It Matters:

- ATO receives data from banks on all deposits
- Assumes unreported income

How to Avoid:

- Explain source of all deposits
- Keep records for gifts, loans, sale of assets

9. Crypto and Capital Gains

Red Flag:

- Crypto exchange activity but no CGT reported
- Share sales not declared

Why It Matters:

- ATO receives data from exchanges and registries
- Failing to report is automatic flag

How to Avoid:

- Report all crypto transactions
- Calculate and report capital gains/losses
- Keep transaction records

10. High-Profile or Media Attention

Red Flag:

- Business featured in media (positive or negative)
- Awards, public success stories
- Social media exposure of wealth

Why It Matters:

- ATO monitors media and social media
- High profile = increased scrutiny

Example:

- Featured in Australian Financial Review
- ATO contact within 7 days

How to Avoid:

- Ensure compliance before seeking publicity
- Be aware public success invites review

11. Related-Party Transactions

Red Flag:

- Transactions with related entities (family trusts, related companies)
- Loans to/from directors
- Below-market rent or wages

Why It Matters:

- Potential profit shifting or tax avoidance
- Transfer pricing concerns

How to Avoid:

- Arm's length pricing for all related-party transactions
- Document commercial rationale
- Get professional advice

What to Do If Audited

Stay Calm:

- Audits happen, even to compliant businesses
- Being selected doesn't mean you did anything wrong

Cooperate:

- Respond to ATO requests promptly
- Provide requested documents

- Be honest and transparent

Get Professional Help:

- Engage accountant or tax lawyer immediately
- Don't try to handle alone
- Professional representation reduces stress and risk

Know Your Rights:

- Right to have representative present
- Right to request delays if gathering documents
- Right to object and appeal decisions

When to Get Professional Help

DIY vs Professional: Decision Guide

You Might DIY If:

- Sole trader with simple income (no employees)
- Turnover under $75,000
- Standard deductions only
- Good with numbers and detail-oriented
- Time to learn and stay updated

Get Professional Help If:

- Running a company (Pty Ltd)
- Employees or contractors
- Registered for GST
- Turnover over $75,000
- Complex deductions (R&D, depreciation)
- Equity raising or ESS
- International transactions
- Audit or ATO dispute
- Don't have time to stay on top of tax changes

Types of Professionals

Bookkeeper:

- Records transactions
- Reconciles accounts
- Prepares BAS

- Payroll processing
- Not qualified to give tax advice

Accountant:

- Prepares tax returns
- Tax planning and advice
- Business structure advice
- Financial statements
- Registered tax agent

Tax Lawyer:

- Complex tax disputes
- ATO audits and litigation
- Structuring advice
- High-stakes matters

R&D Consultant:

- R&D tax incentive claims
- Technical documentation
- AusIndustry liaison
- Maximize eligible claims

Payroll Service:

- Full payroll processing
- STP reporting
- Super payments
- Award interpretation

When to Engage Each

Bookkeeper: From day one if you can afford it

- Costs: $40-80/hour
- Value: Saves time, ensures accuracy, monthly financials

Accountant: Before choosing business structure, then annually for tax return

- Costs: $150-300/hour or $2,000-5,000/year retainer
- Value: Tax savings, compliance, strategic advice

Tax Lawyer: Only for disputes, audits, or complex structuring

- Costs: $300-600/hour
- Value: Expertise in high-stakes situations

R&D Consultant: When claiming R&D tax incentive

- Costs: $5,000-15,000 or 15-25% of refund
- Value: Maximize claim, reduce risk, documentation

Red Flags: Time for a Pro

- ATO sends you a letter (especially audit notice)
- Receiving investment or raising capital
- Hiring first employee
- Considering share schemes
- International expansion
- Consistent losses (need restructure advice)
- Major asset purchase or sale
- Business dispute or wind-up

Questions to Ask Before Hiring

For Accountants:

Are you a registered tax agent?
Do you specialize in startups/small business?
What's your fee structure?
Do you offer fixed-price packages?
How accessible are you for questions?
What software do you use/recommend?
Do you handle BAS and tax returns?
What's included in your service?

For R&D Consultants:

What's your success rate with claims?
Fee structure (fixed vs percentage)?
Do you assist if ATO reviews the claim?
How do you document eligible activities?
References from similar companies?

DIY Resources (Free)

ATO Resources:

- ato.gov.au/business
- ATO app
- ATO YouTube channel
- Small Business Benchmarks
- Online calculators and tools

Business.gov.au:

- Comprehensive startup guides
- Grants and programs
- Tools and templates

ATO Webinars:

- Free online training
- Topic-specific (GST, PAYG, etc.)

Software and Tools

The right tools make tax compliance easier, faster, and more accurate. Here's what Australian startups should consider:

Accounting Software

Xero (Market leader in Australia)

- Pricing: $35-70/month
- Best For: Startups to mid-size businesses, especially with accountant involvement
- Pros: User-friendly, bank feeds, GST/BAS, payroll add-on, 1000+ integrations, most accountants use it
- Cons: Price increases (15% in 2024), payroll costs extra

MYOB

- Pricing: $12-80/month (significant range across plans)
- Best For: Very small businesses, micro-businesses, retail
- Pros: Cheaper entry level, strong in retail/inventory, Australian heritage
- Cons: Less modern interface, fewer integrations

QuickBooks Online

- Pricing: ~$20-80/month
- Best For: Small businesses, simple needs
- Pros: International brand, decent features, good support
- Cons: Less popular in Australia, fewer accountants familiar

Wave (Free option)

- Pricing: Free (income/expenses/invoicing), paid add-ons for payroll/payments
- Best For: Very early startups, testing viability
- Pros: Free, unlimited users, decent features
- Cons: Limited support, fewer features, US-focused

Recommendation for Startups:

Start with Xero if you can afford $35/month. It's the industry standard in Australia (60% market share, 68% of accountants prefer it), making it easier to work with accountants and bookkeepers.

Payroll Software

Xero Payroll

- Pricing: Included in some plans or $10/month add-on
- Pros: Integrated with Xero accounting, STP compliant, super payments

Employment Hero

- Pricing: From $6/employee/month
- Pros: Full HR platform, onboarding, leave management, payroll, super

KeyPay

- Pricing: From $90/month
- Pros: STP, award interpretation, super clearing house

Recommendation:

Use Xero Payroll if already on Xero (simplest integration). Consider Employment Hero if you want full HR features.

Receipt Scanning & Expense Tracking

Dext (formerly Receipt Bank)

- Pricing: From $49/month
- Pros: AI-powered data extraction, integrates with Xero/MYOB, supplier management
- Best For: Businesses with many receipts

Hubdoc (Xero product)

- Pricing: Free for Xero users (some plans)
- Pros: Fetch bills automatically, integrates perfectly with Xero
- Best For: Xero users

Expensify

- Pricing: From $5/user/month
- Pros: Employee expense management, receipt scanning, reimbursements

Phone Apps (Free):

- ATO app (take photos of receipts)
- Xero mobile app
- MYOB Capture

Superannuation Clearing House

ATO Small Business Superannuation Clearing House

- Pricing: FREE

- Pros: Free, government-run, pay multiple employees to multiple funds in one transaction
- Best For: Small businesses with fewer than 19 employees

SuperStream via Accounting Software:

- Most payroll software includes SuperStream-compliant super payments

Recommendation:

Use the free ATO clearing house if eligible (saves fees).

ESS (Employee Share Scheme) Management

Cake Equity

- Pricing: From $200-500/month
- Pros: Australian-built, cap table, ESS management, compliance

Carta (US-based)

- Pricing: Custom (often $1,000+/month)
- Pros: Global standard, cap table, 409A valuations, secondary market
- Cons: Expensive, US-focused

OrbisPM

- Pricing: From $99/month
- Pros: ESS and cap table management, Australian compliance

Recommendation:

Cake Equity for Australian startups (local support, understands Aus tax rules).

R&D Claim Software

Radium Advances (software + consultancy)

Seer Medical R&D (consultancy)

Most R&D is managed by consultants, not DIY software.

Time Tracking (for R&D)

Toggl Track

- Pricing: Free tier, paid from $10/user/month
- Pros: Simple, project-based tracking, reporting

Harvest

- Pricing: Free tier, paid from $12/user/month
- Pros: Time tracking, expense tracking, invoicing

Recommendation:

Essential if claiming R&D tax incentive (need accurate time records).

Tax Tools

ATO Online Services

- Pricing: FREE
- Features: Lodge BAS, view tax accounts, update details, payment plans
- Access: myGov or ATO Business Portal

ATO App

- Pricing: FREE
- Features: Receipt scanning, track deductions, lodge tax return (simple)

Integration Recommendations

Best Startup Stack (Budget):

- Accounting: Xero Starter ($35/month)
- Payroll: Xero Payroll (included)
- Super: ATO Clearing House (free)
- Receipts: Hubdoc (included with Xero)
- Banking: Free business account
- Total: $35/month

Best Startup Stack (Growing):

- Accounting: Xero Standard ($60/month)
- Payroll: Employment Hero ($6/employee/month)
- Super: Employment Hero (integrated)
- Receipts: Dext ($49/month)
- ESS: Cake Equity ($200/month)
- Time tracking: Toggl ($10/user/month)
- Total: ~$350/month (5 employees)

Cost Guide for Professional Services

Understanding typical costs helps you budget for professional help and avoid overpaying.

Bookkeepers

Hourly Rate:

- $40-80/hour (average $50-60/hour)

Monthly Retainer:

- Very small business: $200-400/month
- Small business: $400-800/month
- Growing business: $800-1,500/month

What's Included (Typically):

- Transaction recording
- Bank reconciliation
- Accounts payable/receivable
- BAS preparation and lodgment
- Payroll processing
- Monthly financial reports

When to Pay More:

- Complex transactions
- Multiple entities
- High transaction volume
- Cleanup of messy books

Accountants

Hourly Rate:

- $100-300/hour (average $150-200/hour)

Annual Tax Return:

- Sole trader: $500-1,500
- Company: $1,500-3,000
- Company with complexity: $3,000-10,000+

Monthly/Annual Retainer:

- $250-1,000/month
- $2,000-10,000/year

What's Included:

- Annual tax return preparation
- Tax planning advice
- Financial statement preparation
- Liaison with ATO
- General business advice

Additional Services (Extra Cost):

- BAS preparation and lodgment: $150-400 per quarter
- Payroll setup: $500-2,000
- Business structure advice: $1,000-5,000
- Audit response: $200-400/hour

Tax Lawyers

Hourly Rate:

- $300-600/hour (top-tier firms even higher)

When You Need One:

- ATO dispute or audit
- Complex tax structuring
- Large transactions
- Tax litigation

Typical Engagement:

- Audit response: $5,000-20,000+
- Tax dispute: $10,000-100,000+ (depending on complexity)

R&D Tax Consultants

Fee Structures:

Percentage of Refund:

- 15-25% of refund received
- Example: $100,000 refund = $15,000-25,000 fee

Fixed Fee:

- First-time claim: $5,000-15,000
- Subsequent claims: $3,000-10,000

What's Included:

- Eligibility assessment
- R&D activity documentation
- Time and cost allocation
- AusIndustry registration
- Tax return integration
- Review support (if ATO/AusIndustry reviews)

When to DIY:

- Very simple R&D claim (rare)
- Internal expertise in R&D tax law
- Not recommended for first claim

Startup Packages

Many firms offer startup packages:

Typical Startup Package ($2,000-5,000/year):

- Company registration
- ABN/TFN/GST registration
- Initial tax advice
- Annual tax return
- BAS preparation (4 quarters)
- Basic bookkeeping review
- Unlimited email questions

Payroll Services

Full-Service Payroll:

- $50-150/month base fee
- $5-15 per employee per pay run

What's Included:

- Pay calculations
- Payslips
- STP reporting
- Super payments
- PAYG withholding
- Leave accruals

CFO Services (Part-Time/Fractional)

Monthly Retainer:

- $2,000-10,000/month (varies by hours and seniority)

What You Get:

- Strategic financial planning
- Cash flow management
- Fundraising support
- Investor reporting
- Board reporting
- Management dashboards

When You Need One:

- Raising capital (Series A+)
- Scaling rapidly

- Complex financial operations

Business Valuations

Purpose:

- ESS valuations
- Equity raises
- Business sale

Cost:

- Simple valuation: $2,000-5,000
- Detailed independent valuation: $5,000-15,000+

How to Save Money

Bundle Services:

- One firm for bookkeeping + tax = often discounted

Annual vs Hourly:

- Annual retainer typically cheaper than ad-hoc hourly

Use Software:

- Do data entry yourself, accountant reviews
- Saves bookkeeping fees

Be Organized:

- Provide organized records (saves accountant time)
- Answer questions promptly (reduces back-and-forth)

Ask About Packages:

- Many firms have fixed-price startup packages

DIY Where Appropriate:

- Transaction recording (use software)
- Receipt scanning
- Invoicing

Pay Pro for:

- Tax returns
- BAS (if complex)
- Tax planning
- Disputes/audits
- Structuring decisions

Red Flags (Too Cheap)

Warning Signs:

- $500 company tax return (should be $1,500-3,000)
- Unlicensed/unregistered agent
- Offshore call centers
- Promises of huge refunds
- Aggressive tax schemes

If It Sounds Too Good to Be True:

- It probably is
- You're liable for your tax, not the dodgy agent

ATO Resources and Support

The ATO offers surprisingly good resources for small businesses and startups. Here's what's available:

Online Resources

ATO Website (ato.gov.au/business):

- Comprehensive guides on every tax topic
- Calculators and tools
- Tax tables
- Industry benchmarks
- Forms and schedules

Key Pages:

- Starting a business: ato.gov.au/business/starting-your-business
- GST: ato.gov.au/business/gst
- PAYG: ato.gov.au/business/payg
- R&D: ato.gov.au/business/rd
- Employee/contractor: ato.gov.au/business/employee-or-contractor

Business Portal:

- Access via myGov or directly
- Lodge BAS, view accounts, make payments
- Update business details
- Access letters and notices

- Set up payment plans

ATO App

Features:

- Take photos of receipts (stores for 5 years)
- Track deductions
- Lodge simple tax returns
- myDeductions tool

Download:

- iOS App Store
- Google Play Store

Phone Support

General Business Helpline:

- 13 28 66 (13 AUTO)
- Monday to Friday, 8am-6pm

Superannuation Helpline:

- 13 10 20

What to Have Ready:

- ABN or TFN
- Business details
- Specific question prepared

ATO Small Business Assistance

New Business Assistance:

- Guidance on registration
- Understanding obligations
- Setting up systems

Small Business Benchmarks:

- Compare your business to industry averages
- Identify red flags before ATO does
- ato.gov.au/benchmarks

Webinars and Online Learning

Free ATO Webinars:

- Live and recorded sessions
- Topics: GST, PAYG, record-keeping, single touch payroll
- Register: ato.gov.au/webinars

Online Learning:

- Self-paced courses
- Videos and tutorials
- Quizzes to test understanding

ATO Community

Online Forum:

- Ask questions
- Community answers (not official advice)
- Searchable archive

Tax Help Program

Free Tax Help for Low-Income Individuals:

- Volunteers help with simple tax returns
- Not for businesses, but may help sole traders

Business.gov.au

Not ATO, but Government Resource:

- Starting a business
- Grants and programs
- Tools and templates
- Planning resources

Website: business.gov.au

Translated Resources

Non-English Speakers:

- Translating and Interpreting Service (TIS)
- 13 14 50
- Free for tax help in over 160 languages

Payment Plans

Can't Pay on Time:

- ATO offers payment plans
- Apply online or call 13 28 66
- Better to arrange plan than ignore debt
- Interest (GIC) still applies but better than penalties

Voluntary Disclosure

Made a Mistake:

- Voluntary disclosure before ATO contacts you
- Reduces penalties by up to 80%
- Shows good faith

How to Disclose:

- Amend your tax return or BAS
- Include explanation
- Pay shortfall ASAP

Dispute Resolution

If You Disagree with ATO:

Objection (formal process, 2 or 4 years from notice)
Review (internal ATO review)
AAT (Administrative Appeals Tribunal—independent review)
Federal Court (litigation—expensive)

Before Escalating:

- Get professional advice (tax lawyer or accountant)
- Understand your position
- Consider settlement

Complaints

If Unhappy with ATO Service:

Speak to ATO officer's manager
Lodge formal complaint with ATO
Contact Inspector-General of Taxation and Taxation Ombudsman (independent)

IGTO Website: igt.gov.au

Summary: Your Tax Compliance Roadmap

Month 1: Set Up

- [ ] Choose business structure
- [ ] Register ABN (free)
- [ ] Register GST (if applicable)
- [ ] Set up business bank account
- [ ] Choose accounting software (Xero recommended)
- [ ] Set up record-keeping system
- [ ] Consult with startup accountant

Month 2-3: Systems

- [ ] Register for PAYG withholding (if hiring)
- [ ] Set up payroll system (if hiring)
- [ ] Implement receipt scanning process
- [ ] Connect bank feeds to accounting software
- [ ] Set up tax calendar reminders
- [ ] Review insurance needs

Ongoing: Operations

- [ ] Record all transactions weekly
- [ ] Reconcile bank accounts monthly
- [ ] Lodge BAS quarterly (28 days after quarter)
- [ ] Pay super quarterly (28th of month after quarter)
- [ ] Track R&D activities (if applicable)
- [ ] Review contractor/employee classifications annually

Annual: Compliance

- [ ] Prepare and lodge tax return (31 Oct or via agent)
- [ ] Register R&D with AusIndustry (30 April if claiming)
- [ ] Review business structure and tax strategy
- [ ] Update financial forecasts
- [ ] Review ESS valuations (if applicable)
- [ ] FBT return (21 May if applicable)

Red Flags to Avoid

- Missing deadlines (BAS, super, tax returns)
- Poor record-keeping (no receipts, mixed personal/business)
- Misclassifying workers (employee vs contractor)
- Undeclared income (cash sales, crypto, investments)
- Excessive deductions (out of line with benchmarks)
- Continuous losses (hobby vs business test)

When to Get Help

- Choosing business structure
- First employee or contractor
- Raising capital or issuing equity
- R&D tax incentive claim
- ATO audit or dispute
- International hiring or sales
- Complex transactions

Key Takeaways

Separate business and personal finances from day one
Use accounting software (Xero is industry standard)
Never miss super deadlines (not tax-deductible if late)
Keep records for 5+ years (digital is fine)
Register for GST within 21 days of hitting $75K
Get professional help early (cheaper than fixing mistakes)
Voluntary disclosure if you make a mistake (reduces penalties)
Understand R&D incentive (massive benefit for eligible startups—43.5% refund)
Structure equity carefully (ESS concessions save employees huge tax)
Stay compliant to avoid audits (lifestyle vs income, industry benchmarks)

Additional Resources

Official Resources

- Australian Taxation Office: ato.gov.au/business
- Business.gov.au: business.gov.au
- AusIndustry (R&D): business.gov.au/grants-and-programs/research-and-development-tax-incentive
- Australian Business Register: abr.gov.au
- Fair Work Ombudsman: fairwork.gov.au

Industry Bodies

- Chartered Accountants ANZ: charteredaccountantsanz.com
- CPA Australia: cpaaustralia.com.au
- Institute of Public Accountants: publicaccountants.org.au
- The Tax Institute: taxinstitute.com.au

Startup-Specific

- Cake Equity (ESS): cakeequity.com
- StartupAUS: startupaus.org
- Stone & Chalk: stoneandchalk.com.au

Software

- Xero: xero.com/au
- MYOB: myob.com/au
- Employment Hero: employmenthero.com
- Dext: dext.com

Glossary

ABN: Australian Business Number—unique 11-digit identifier for your business

ATO: Australian Taxation Office—government agency that administers tax

BAS: Business Activity Statement—report GST, PAYG, and other obligations (quarterly or monthly)

CGT: Capital Gains Tax—tax on profit from selling assets (shares, property)

ESS: Employee Share Scheme—program to grant shares/options to employees

ESOP: Employee Share Option Plan—type of ESS using options

FBT: Fringe Benefits Tax—tax on non-cash employee benefits (employer pays)

GST: Goods and Services Tax—10% consumption tax on most goods/services

GIC: General Interest Charge—interest on late tax payments

PAYG: Pay As You Go—system for withholding tax or paying instalments

R&D: Research and Development—experimental activities generating new knowledge

SGC: Super Guarantee Charge—penalty for late super payments (not tax-deductible)

STP: Single Touch Payroll—real-time payroll reporting to ATO

TFN: Tax File Number—unique identifier for individuals

Pty Ltd: Proprietary Limited—company type (separate legal entity)

Disclaimer: This guide provides general information only and should not be relied upon as professional tax advice. Tax laws change frequently, and every startup's situation is unique. Always consult with a registered tax agent or accountant for advice specific to your circumstances.

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How Allivate Can Help

At Allivate, we understand that managing tax obligations is just one piece of the puzzle for growing startups. Our assessment tool evaluates your business across all operational areas—finance, compliance, people, technology, and growth—to identify gaps and provide tailored advice.

When we assess your tax and compliance readiness, we look at:

- Current structure and optimization opportunities
- Tax obligation awareness and deadline management
- Record-keeping systems and quality
- Payroll and super compliance
- R&D eligibility and claim optimization
- Risk areas that may trigger ATO attention

Our reports integrate this tax guidance with broader operational recommendations, giving you a clear roadmap to build a compliant, sustainable, and investor-ready business.

Want to assess your startup's readiness? Visit allivate.com to get started.