



FACT SHEET

How are Sole Traders taxed in Australia?

Embarking on the journey of becoming your own boss and launching a sole trader business brings with it a host of newfound freedoms, the ability to chart your own professional course, and the satisfaction of reaping the rewards of your hard-earned efforts. However, it's important to note that sole traders also shoulder additional financial responsibilities and must adhere to tax rate compliance regulations.

Whether you're just starting as a sole trader, contemplating a shift in your business structure as a company owner, or an established sole trader looking to project your tax obligations for the upcoming year, it's crucial to gain a clear understanding of how tax rates function for sole traders in Australia.

Sole Trader tax rates in Australia

The tax rate applicable to sole traders is identical to that of individuals employed by others. This simplicity distinguishes sole trader income tax from the tax structures of companies. It also implies that you only pay taxes on your personal and business income exceeding the tax-free threshold.

Below is a summary of the current tax rates applicable to sole traders for the 2023-2024 financial year.

Taxable Income	Tax Payable
0-\$18,200	Nil
\$18,201 - \$45,000	19 cents for each \$1 over \$18,200
\$45,001 - \$120,000	\$5,092 plus 32.5 cents for each \$1 over \$45,000
\$120,001 - \$180,000	\$29,467 plus 37 cents for each \$1 over \$120,000
\$180,001 and over	\$51,667 plus 45 cents for each \$1 over \$180,000

Note: The above rates do not incorporate the Medicare Levy surcharge, which may also apply to you.

How is tax calculated for Sole Traders

As a sole trader, you report all your income in your personal tax return, using the business items section to present your business-related income and expenses. You may be eligible to claim deductions for specific business-related activities, such as business travel, home office expenses, or vehicle costs. Your taxable income is determined by subtracting any deductions from your total income.

You are then taxed on your taxable income using the same progressive scale as individual personal income, illustrated above.



FACT SHEET

How are Sole Traders taxed in Australia?

How do Sole Traders pay tax?

As a Sole Trader, you're required to file annual individual tax returns. However, to prevent facing a substantial annual tax bill, you can choose to use the Pay As You Go (PAYG) tax system.

Paying tax as a sole trader is a straightforward process, thanks to the PAYG instalment system. This system enables you to make quarterly tax payments, preventing the accumulation of a substantial tax bill at the end of the financial year.

When you're just starting as a sole trader, you'll need to estimate your expected income and choose an instalment amount to pay every three months based on this estimate. As your business becomes more established, the Australian Taxation Office (ATO) will use your previous year's income to calculate the required amount for each PAYG instalment.

You can conveniently make your PAYG instalment payments through the myGov website using your personal account, where you can access all your current tax information. Alternatively, you have the option to pre-pay instalments into a tax bill account and make payments using BPay.

Do Sole Traders need to register for GST?

If you're operating as a sole trader, your business is required to register for the Goods and Services Tax (GST) if ANY of the following conditions apply:

1. Your GST turnover reaches \$75,000 or more (\$150,000 for a non-profit organisation).
2. You provide taxi or limousine services for passengers, including ride-sourcing, irrespective of your GST turnover.
3. You intend to claim fuel tax credits for your business.

Once you've registered for GST as a business, you'll be responsible for filing quarterly Business Activity Statements (BAS), which conveniently encompass both GST payments and PAYG instalments.

Next Steps

Maintaining a firm grip on your tax responsibilities is paramount. Errors can lead to penalties that can prove costly, and inadequate tax management can impact your cash flow.

There are several steps you can take to simplify the process of handling your business taxes, particularly as the end of the financial year approaches. These measures encompass leveraging accounting software like Xero, diligently maintaining precise records of your earnings and expenses, and seeking the assistance of an accountant. Many sole traders in Australia opt for the guidance of an accountant or tax advisor and engage with them once or twice annually to ensure they are effectively managing their tax affairs.

If you'd like to discuss your Sole Trader tax obligations with a Lemonade Beach Accountant, we encourage you to [book a consultation](#) via our website.