



DIRECT SELLING AUSTRALIA

ABNs & Direct Selling:

Guidelines for Direct Sellers



The information provided is a general overview of the new withholding tax exemption. If you require further more specific advice about the impact on your business, you should seek independent professional advice.

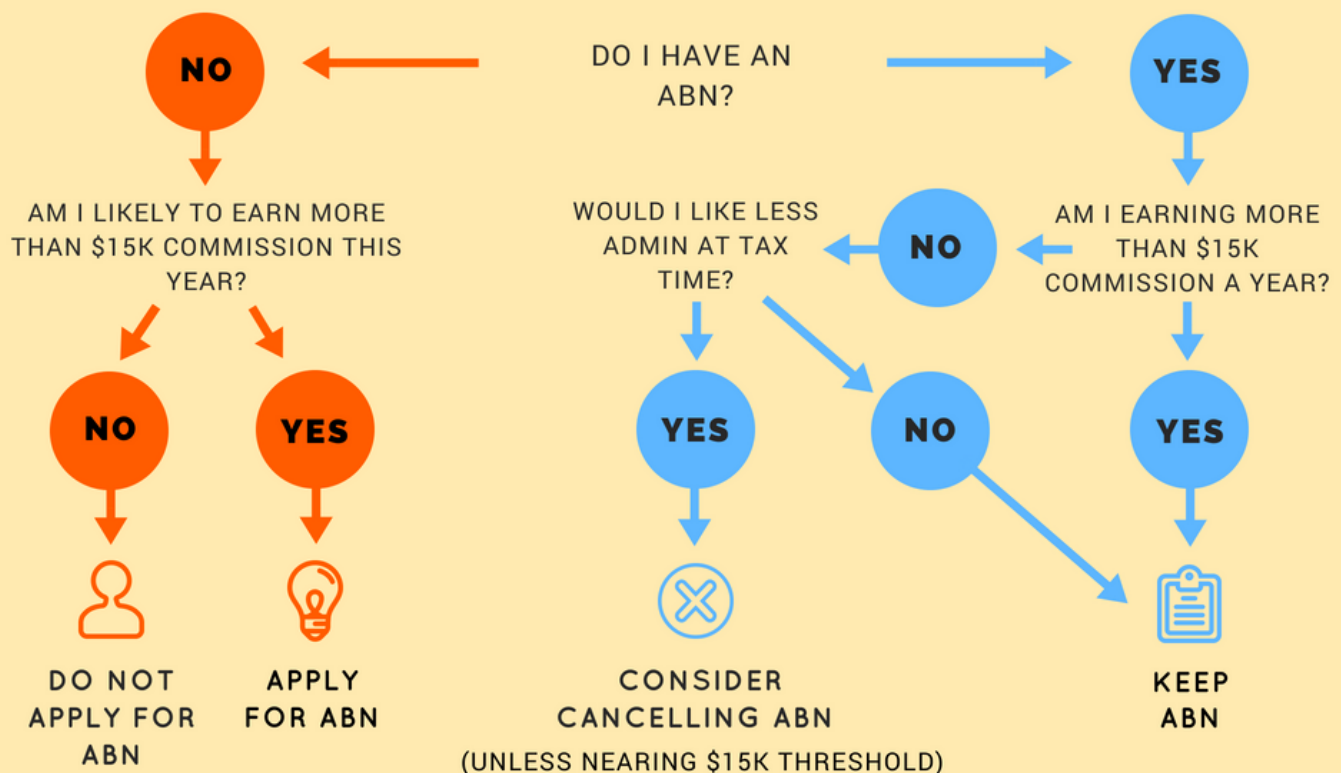
Summary of New Rules for Direct Sellers Regarding Australian Business Number (ABN) Entitlement and Usage

On **1 July 2018**, the Australian Taxation Office (ATO) has agreed to new arrangements regarding the use of ABNs within the direct selling industry. The great news is that the new rules are much simpler, they will minimise red tape and reduce the burden of compliance for individuals registered with a direct selling organisation (DSO).

If you are engaged with a Member of Direct Selling Australia (DSA), you are covered by a variation to the normal rules regarding withholding tax. From 1 July 2018, you can earn up to **\$15,000** from your direct selling activities without needing to quote an ABN.

The ATO is actively trying to clean up the Australian Business Register (ABR) and reduce the number of inactive or unnecessary ABNs. The ABR is an important resource relied upon by hundreds of Government Agencies and the integrity of its data is vital. An extensive review by the ATO found that within the direct selling industry a significant number of ABNs were issued to direct sellers who were earning under \$10,000 in commission. To avoid unnecessary registrations and to simplify matters for new entrants to the industry, the ATO has taken the proactive step of declaring that direct sellers earning under \$15,000 do not need to hold an ABN.

ABNs in Direct Selling





I don't have an ABN

Q: *I don't have an ABN, do I need one?*

A: You only need an ABN when the commission paid to you by a DSA Member is \$15,000 or more in the financial year.

Q: *My income from direct selling is two-fold – I earn a retail profit on my sales which I collect directly at the point of resale and I earn commission from the company which comes in my fortnightly bonus. Do I count both sources of income when assessing if I've hit the threshold?*

A: The wording of the variation says: "Payment of commission made by members of [DSA] to an independent distributor where total payments for the financial year are less than \$15,000." You only count payments received from the direct selling organisation (DSO) – not retail profit that you collect at resale. If you are in business you should report both of these amounts in your tax return.

Q: *I am an ISP registered with two DSOs – one is a DSA Member and the other is not. How do I apply the new ABN policy?*

A: The ABN policy outlined above only applies to DSA Members. For non-Members, your arrangements will be different and you should seek advice from them directly. For the avoidance of doubt, do not combine income from both DSOs.



I am unlikely to make more than \$15,000 in commission this year

Q: *What are the benefits for ISPs earning less than \$15,000 in not applying for an ABN?*

A: Many ISP's earn less than \$15,000 but currently hold ABNs with many having obtained their ABN upon joining a DSA member. There are currently a number of business tax obligations which apply to you as an ISP if you hold an ABN, regardless of your level of income (including lodging a tax return even if your income is below the tax-free threshold). DSA members should, therefore, ask or encourage you to obtain an ABN only when you are approaching the threshold. For new ISPs, this will allow you to get started and build your activities without needing additional compliance obligations until your activities become significant. If you do not have an ABN, you still have to count your income from direct selling in determining if you have gone over the tax free threshold, for all of your income each year.



I am likely to make more than \$15,000 in commission this year

Q: *I do not have an ABN but expect to earn more than \$15,000 in FY18. What should I do?*

A: Register for an ABN once your earnings approach the threshold limit and advise your DSO so that they do not start withholding tax from your commission payments.

Q: *How will I know when my earnings are approaching the threshold?*

A: Your DSO should track the cumulative total of your commission payments in each financial year and notify you when it is approaching the threshold of \$15,000. The DSO is obliged to withhold tax once your earnings exceed the threshold if you haven't supplied them with an ABN. You should also maintain your own records of the commission you earned in each financial year.

Q: *How do I get an ABN when I need one?*

A: It is quick and easy to register for an ABN on the Australian Business Register website (www.abr.gov.au).

Q: *What will happen if I earn more than \$15,000 from direct selling and don't have an ABN?*

A: Your DSO will be obliged to withhold tax at the maximum marginal rate (currently 47%) i.e. If you earn a commission of \$1,000, the DSO will withhold \$470 and you will receive the net amount of \$530.



I have an ABN

Q: *I have an ABN, do I need one?*

A: You only need an ABN for your direct selling activities if the commission paid to you by a DSA Member is \$15,000 or more in the financial year. If you have an ABN you will be required to lodge a tax return no matter how much you earn. You may also be required to lodge a BAS and pay installments towards your tax liability.

Q: *My income from direct selling is two-fold – I earn retail profit on my sales which I collect directly at the point of resale and I earn commission from the company which comes in my fortnightly bonus. Do I count both sources of income when assessing if I've hit the threshold?*

A: The wording of the variation says: "Payment of commission made by members of [DSA] to an independent distributor where total payments for the financial year are less than \$15,000." You only count payments received from the DSO – not retail profit that you collect at resale.

Q: *I am an ISP registered with two DSOs – one is a DSA Member and the other is not. How do I interpret apply the new ABN policy?*

A: The ABN policy outlined above only applies to DSA Members. For non-Members, your arrangements will be different and you should seek advice from them directly. For the avoidance of doubt, do not combine income from both DSOs.



I am unlikely to make more than \$15,000 in commission this year

Q: *I have an ABN and have earned minimal commission in the last few years. Will the ATO cancel my ABN or what should I do?*

A: The ATO will not seek to cancel your existing ABN. However, if you are an ISP and currently have an ABN but you are not earning over \$15,000 a year, you are encouraged to cancel your ABN by telephone on 139 226 (139 ABN).

Q: *I have an ABN and earned \$12,000 in FY16 and \$8,000 in FY17 from my direct selling business. What should I do?*

A: As your earnings are declining and significantly under the threshold, you should consider cancelling your ABN as you do not need it because you are covered by the Variation.

Q: *What are the potential benefits for me if I am earning less than \$15,000 in choosing to cancel my ABN?*

A: There are currently a number of business tax obligations which apply to you when you hold an ABN, regardless of your level of income (including lodging a tax return even if your income is below the tax-free threshold). If you are already an ISP but earn less than the threshold, you also have the opportunity to reduce your compliance burden going forward by cancelling your existing ABN.



I am likely to make more than \$15,000 in commission this year

Q: *I made \$17,000 in FY17 which is likely to rise to \$19,000 in FY18. What should I do?*

A: In these circumstances, you should maintain your ABN as the income earned over \$15,000 will not be covered by the withholding tax exemption.

Q: *I have an ABN and earned \$12,000 in FY16 and \$13,500 in FY17 from my direct selling business. What should I do?*

A: If you believe that your income will continue to grow then you may choose to keep your ABN even though you have not reached the \$15,000 threshold.

Q: *I have a variety of income generating activity which I report under a single ABN, together they amount to more than \$15,000 but my direct selling income is probably only \$5,000 of the total. What should I do?*

A: Only the \$5,000 earned from your direct selling income will be relevant for the purposes of the withholding tax exemption.