

Monday, 27 May 2024

General Tax guidance for Australian National Four-Wheel Drive Council Inc. and Not-for-Profit 4WD clubs

Dear Paul,

Further to our discussion regarding the tax implications of the clubs' activities and the principles of mutuality please note the following.

Understanding Mutual and Non-Mutual Income

Mutual Income:

Mutual income arises from transactions with members of your not-for-profit club. This type of income is generally not subject to income tax. Examples of mutual income include:

1. **Membership Fees:** Fees paid by members to join or remain part of the club.
2. **Member Services:** Income from services provided to members, such as use of facilities or participation in club activities.
3. **Member Subscriptions:** Regular payments made by members for club newsletters, magazines, or other periodic communications.
4. **Donations from Members:** Contributions made by members without receiving any direct benefit in return.

Non-Mutual Income:

Non-mutual income is derived from transactions with non-members or from activities not directly related to the primary objectives of the club. This income is generally subject to income tax. Examples of non-mutual income include:

1. **Commercial Activities:** Revenue from activities like renting out club facilities to non-members, hosting events open to the public, or running a café or bar open to non-members.
2. **Sponsorships and Advertising:** Income from sponsorship deals or advertising agreements with businesses.
3. **Investment Income:** Interest, dividends, or other returns on investments held by the club.
4. **Grants and Government Funding:** Grants received from government bodies or other organisations that are not member contributions.
5. **Non-Member Donations:** Donations from individuals or entities that are not members of the club.

- Business Advisors
- Registered Tax Agents
- Self-Managed Superannuation Fund Services
- ASIC registered SMSF Auditor
- Bookkeeping services & advice

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Offsetting Non-Mutual Income with Expenses

To reduce the taxable income of non-mutual income, not-for-profit clubs can offset it with relevant expenses. These expenses must be directly related to earning the non-mutual income. Common examples include:

1. **Operational Costs:** Expenses incurred from running commercial activities, such as wages for staff, utility bills, and maintenance costs for facilities rented to non-members.
2. **Marketing and Promotion:** Costs related to advertising and promoting events or services aimed at non-members.
3. **Professional Fees:** Expenses for professional services such as legal advice, accounting, or consultancy directly associated with earning non-mutual income.
4. **Supplies and Equipment:** Costs for supplies and equipment used in commercial activities or events open to non-members.
5. **Depreciation:** Depreciation of assets used to generate non-mutual income, such as equipment or property.

Key Considerations

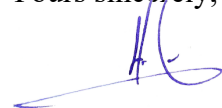
1. **Record Keeping:** Maintain detailed and accurate records of all income and expenses. This is crucial for determining which expenses can be legitimately offset against non-mutual income.
2. **Activity Classification:** Clearly classify activities and transactions as either mutual or non-mutual to ensure proper tax treatment.
3. **Tax Concessions:** Explore available tax concessions for not-for-profit clubs, such as income tax exemptions, GST concessions, and FBT (Fringe Benefits Tax) exemptions, if applicable.
4. **Regular Reviews:** Conduct regular reviews of your club's income sources and associated expenses to ensure compliance with tax laws and optimise tax obligations.

Conclusion

By understanding the distinctions between mutual and non-mutual income and identifying appropriate expenses to offset non-mutual income, your not-for-profit clubs can effectively manage their tax obligations. Proper classification, meticulous record-keeping, and regular financial reviews are essential practices to maintain tax compliance and optimise financial health. Always consider seeking professional tax advice to navigate specific circumstances and ensure adherence to the latest tax regulations.

This advice is general in nature and not a substitute for professional tax advice tailored to your club's specific circumstances.

Yours sincerely,



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