



# CHARLES PRATTEN

## Independent Consultant

### Business & Management

#### CONTACT

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PHONE:

+ 61 0480 183 977  
1300 855 223

WEBSITE:

[www.charlespratten.com.au](http://www.charlespratten.com.au)

EMAIL:

[contact@charlespratten.com.au](mailto:contact@charlespratten.com.au)

#### What Does It Mean to Pay a Fair Share of Tax?

The idea of "paying a fair share of tax" is often invoked in discussions about economic fairness, but its meaning can vary widely depending on perspective. For many, the term suggests that others—often companies or high-income individuals—are paying too little tax relative to their earnings. However, in tax law, the concept is more straightforward: a taxpayer, whether an individual or business, is not required to pay a penny more or a penny less than what they legally owe. This principle is foundational in tax law and reflects the idea that the tax paid should be the exact amount of legal liability, no more and no less.

In most countries, including Australia, the income tax system is structured so that tax is calculated as a percentage of taxable income, but it's not always straightforward. Not all income is considered taxable, and there are numerous deductions and write-offs that individuals and businesses can claim, which lower the amount of income subject to tax. These deductions are often legitimate expenses tied to generating income, such as business costs, investments, or contributions to superannuation. As a result, taxable income can be significantly less than total income received, leading to a lower tax bill than some might expect.

Australia's tax system, in particular, is often criticised as antiquated and overly complex, especially for small businesses and sole traders. The system's structure means that those without the resources to manage complicated tax filings may miss out on available deductions, leading to a perception that others are paying less than their fair share. When people see that others are paying seemingly less tax, it can create frustration, often without understanding the specific circumstances or deductions legally available to those taxpayers.

Ultimately, the term "fair share" can be misleading, as it implies a uniform standard without accounting for the complexities of tax laws and individual financial situations. While it's natural to question whether everyone is contributing equitably, the tax system's framework is designed to ensure legal compliance, not to pass judgment on fairness. Each taxpayer's liability is ...

... unique, and understanding this complexity is key to dispelling the common misconception that others are unfairly avoiding their tax obligations.

In summary, paying a fair share of tax" is often perceived, but not always wrongly, as a complaint directed at high earners and companies. In tax law, however, it simply means paying exactly what one legally owes. In Australia, income tax is calculated on taxable income, which can be significantly less than total income due to lawful deductions for business expenses, investments, or superannuation contributions. This complex tax system often leads to misunderstandings, with some assuming others aren't paying their fair share without knowing the specific deductions and regulations in play. Ultimately, the tax system enforces legal compliance, not subjective fairness, underscoring the importance of understanding individual tax obligations.

### ❖ **The Importance of the Right Accountant for Your Business**

At Charles Pratten and Associates, a key part of my practice is connecting business owners with accountants who have a proven track record in their field. Not every accountant is the right fit for every business, and having the right accountant ensures you only pay the tax you're legally obligated to—nothing more. Indeed, effective tax planning is essential for anyone considering buying or establishing a business. From personal experience, I know the impact of this; due to incorrect advice, I initially missed nearly \$500,000 in deductions, which I was able to claim in later income years with the guidance of a more specialised accountant.

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