

ACCT2331 – Taxation

Chapter 10 – Income Tax Liability

The Australian income tax system is considered to be one of the most complex income tax systems in the world. Peter Costello – “the current tax system is unnecessarily complex. Income tax legislation has grown from about 120 pages to more than 7000 as a result of 60 years of patching and filling. Over the past 15 years there have been over 650 tax policy changes announced.”

Income tax overview

- ▶ Income tax is payable by a broad range of entities including:
 - individuals
 - companies
 - trustees of superannuation funds
- ▶ Most entities pay income tax on their “taxable income” for the “income year”
 - For most entities, the income year is the same as the financial year (1 July to 30 June)
 - For companies, the income year is the *previous* financial year

Calculating Income Tax Liability

Income tax is payable by a broad range of entities including, companies, trustees of trust estates and trustees of superannuation funds (**s 4-1, s9-1 ITAA97**). Entities are required to pay income tax for each ‘financial year’ (**s4-10**)

Taxable Income

Under s4-15

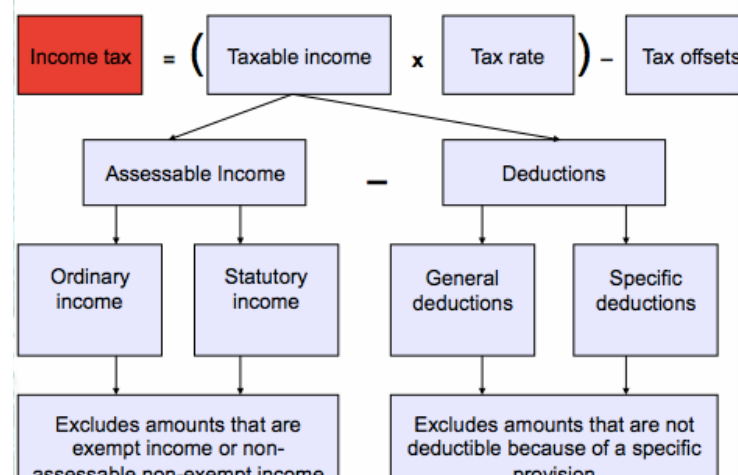
- **TAXABLE INCOME = ASSESABLE INCOME – DEDUCTIONS**

Income Year – The commissioner may allow an entity to have an income year that does not end on 30 June. For instance, a company might seek a ‘substituted accounting period’ where balancing on 30 June is impractical because of its special business operations or because it is a subsidiary of a foreign company that might balance on a different rate.

Income Tax Formula



Income tax formula



It is evident there are a number of steps involved in calculating an entity's income tax liability for an income year.

Additional Levies Payable by individuals

- Medicare Levy
- Medicare Levy Surcharge
- HELP repayment

Tax Losses

Income tax is not payable where an entity makes a tax loss. Tax losses can be carried forward and used as deductions in future income years.

Tax loss arises where:

$$\boxed{\text{Deductions}} > \left(\boxed{\text{Assessable income}} + \boxed{\text{Net exempt income}} \right)$$

Assessment, payment and collection of income tax

Tax returns and Assessments

Taxpayers are required to lodge income tax returns with the ATO at the end of each income year

Assessment

- **The Commissioner issues formal notices of assessment to most taxpayers**
- **Full self-assessment taxpayers (companies and trustees of superannuation funds)**
 - **Do not receive formal notices of assessment**
 - **Instead, tax return is deemed to be an assessment made by the Commissioner**

The commissioner also has the power to issue amended assessments to taxpayers. Amended assessments are typically issued after the ATO has conducted a tax audit and it has been discovered that a taxpayer's tax liability has been understated.

Payment of income tax

The time that income tax is due and payable differs depending on whether or not the taxpayer is a 'self-assessment entity'

Full self-assessment entity

- **Income tax is due and payable on the first day of the sixth month after the income year**

Other entities

- **Income tax is due and payable 21 days after the return day, or**
- **If the taxpayer's return is lodged before or on the return day, and the Commissioner gives the taxpayer a notice of assessment after the return day, income tax is due and payable 21 days after the giving of the notice**