

Lecture 1: Introduction to the Tax System

Taxes

- Income Tax
- Capital Gains Tax (CGT) – Commenced 20 September 1985
- Fringe Benefits Tax (FBT) – Commenced 1 July 1986
- Goods and Services Tax (GST) – Commenced 1 July 2000

Sources of Taxation Law

1. Legislation – Statute Law

- **Income Tax Assessment Act 1936 (ITAA 1936)**
- **Income Tax Assessment Act 1997 (ITAA 1997)**
 - Provides guides, link notes, sign posts, examples and conversion tables to assist the reader in navigating it.
 - Since its addition there have been a number of informal changes and additions
 - May have to use both ITAA 1997 and 1936. Always start with ITAA 1997.
- **Tax Administration Act 1953**
- **FBT Assessment Act 1986**
- **A New Tax System (GST) Act 1999**
- **Tax Law Improvement Project (TLIP)**
 - Established in July 1994.
 - Aim → Simplify the structure and use plain English
 - End result was the ITAA 1997

2. Case Law

- Created by decisions of the courts and also by the Administrative Appeals Tribunal in interpreting statutes.
- Cases are published in electronic databases, case books or loose-leaf services

3. ATO – Rulings (Public and Private)

- The ATO has the power to make legally binding rulings and determinations
- Rulings can be found in: ATO Website, Australian Tax Practice rulings and guidelines, CCH Australian Income Tax Rulings.

Different Tax Rates

- Resident Individual Rate (Resident Marginal Rates)
- Non-Resident Individual Rates (Non-Resident Marginal Rates)
- Company Rate (Flat 30%, 28.5% for an SBE in 2016)
- Taxation of Minors – **Division 6AA ITAA 1936**
- Taxation of Trustees – **Sections 99A/ 99 ITAA 1936**

Tax Position Calculation

1. **Taxable Income = Assessable income - Deductions**
 2. **BITL = (Taxable Income x Tax rate)**
(BITL means Basic Income Tax Liability)
 3. **Reduce BITL by deducting Offsets**
(Offsets = Low Income Rebate (LIR), Franking Tax Offset (FTO), etc.)
 4. **Deduct Tax already Paid e.g. deduct PAYG(W)**
- = Tax Payable or Tax Refundable**

Tax Offsets

- Reduces the amount of income tax an individual or entity has to pay. They result in a benefit to the taxpayer that is equal to the amount of the credit or offset.
- 3 Types
 - Those subject to extinguishment (Low Income Rebate - Examinable)
 - Those that may be carried forward
 - Those that may be refunded (Franking Tax Offset – Examinable)

Low Income Tax Rebate (LIR)

Low Income Rebate (LIR) - 2007

- Individual is entitled to a maximum \$600 LIR if Taxable Income is \$25,000 or less.
- The \$600.00 LIR is reduced by four cents for each dollar that Taxable Income is over \$25,000.
- That means that the \$600.00 LIR is reduced to \$Nil once Taxable Income reaches \$40,000.
- Section 159 H and 159N ITAA 1936.

Low Income Rebate (LIR)

Tax Year	Maximum LIR	LIR reduced by 4 cents for every dollar Taxable Income is over \$30,000	No LIR	Example
	If Taxable Income is equal to or below \$30,000	Formulae	LIR is Zero at the following Taxable Income	Assume Taxable Income equals \$38,500
2008	\$750	LIR = Max LIR minus [(TY - \$30,000) * 4%]	\$48,750	(\$750 - [\$38,500-\$30,000]*4%) = \$410
2009	\$1,200	LIR = Max LIR minus [(TY - \$30,000) * 4%]	\$60,000	(\$1,200 - [\$38,500-\$30,000]*4%) = \$860
2010	\$1,350	LIR = Max LIR minus [(TY - \$30,000) * 4%]	\$63,750	(\$1,350 - [\$38,500-\$30,000]*4%) = \$1,010
2011	\$1,500	LIR = Max LIR minus [(TY - \$30,000) * 4%]	\$67,500	(\$1,500 - [\$38,500-\$30,000]*4%) = \$1,160
2012	\$1,500	LIR = Max LIR minus [(TY - \$30,000) * 4%]	\$67,500	(\$1,500 - [\$38,500-\$30,000]*4%) = \$1,160
2013 to 2016	\$445	LIR = Max LIR minus [(TY-\$37,000)*1.5%]	\$66,667	(\$445-[\$38,500-\$37,000]*1.5%) = \$422.50

Franking Tax Offsets (FTO)

- **Shareholder Level:**
 - Include the distribution as assessable income
 - Franking credit is attached to the distribution, included as assessable income: and
 - Shareholder is entitled to a tax offset equal to the franking credit to the distribution
- **Company Level:**
 - Taxable Income \$100
 - Tax (30%) \$30
 - After Tax Profits \$70
 - Franked Distribution \$70

Franked Dividend with Low Income

Fully Franked Distribution	\$ 70
Add Franking Credit ($\$70 \times (30/70) \times 100\%$)	<u>\$ 30</u>
Taxable Income	\$100
Gross Tax for an individual	\$ 0
Less: Franking Tax Offset	<u>\$ 30</u>
Net Tax refundable	\$ 30

Assume Taxpayer has no other assessable income

Individuals but not Companies receive a refund of their excess Franking Tax Offset (section 67-25)

Individual Tax Rates – Resident

**Residents 2013 - 2014 - 2015
Tax Rates**

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$18,200	Nil
\$18,201 – \$37,000	19c for each \$1 over \$18,200
\$37,001 – \$80,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$80,001 – \$180,000	\$17,547 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,547 plus 45c for each \$1 over \$180,000

The above rates do not include the Medicare levy.

**Residents – 2011 & 2012
Tax Rates**

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$6,000	Nil
\$6,001 – \$37,000	15c for each \$1 over \$6,000
\$37,001 – \$80,000	\$4,650 plus 30c for each \$1 over \$37,000
\$80,001 – \$180,000	\$17,550 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,550 plus 45c for each \$1 over \$180,000

The above rates do not include the Medicare levy nor the Flood levy

Residents - 2010 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$6,000	Nil
\$6,001 – \$35,000	15c for each \$1 over \$6,000
\$35,001 – \$80,000	\$4,350 plus 30c for each \$1 over \$35,000
\$80,001 – \$180,000	\$17,850 plus 38c for each \$1 over \$80,000
\$180,001 and over	\$55,850 plus 45c for each \$1 over \$180,000

Residents - 2009 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$6,000	Nil
\$6,001 – \$34,000	15c for each \$1 over \$6,000
\$34,001 – \$80,000	\$4,200 plus 30c for each \$1 over \$34,000
\$80,001 – \$180,000	\$18,000 plus 40c for each \$1 over \$80,000
\$180,001 and over	\$58,000 plus 45c for each \$1 over \$180,000

Residents - 2008 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$1 – \$6,000	Nil
\$6,001 – \$30,000	15c for each \$1 over \$6,000
\$30,001 – \$75,000	\$3,600 plus 30c for each \$1 over \$30,000
\$75,001 – \$150,000	\$17,100 plus 40c for each \$1 over \$75,000
\$150,001 and over	\$47,100 plus 45c for each \$1 over \$150,000

Residents - 2007 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$6,000	Nil
\$6,001 – \$25,000	15c for each \$1 over \$6,000
\$25,001 – \$75,000	\$2,850 plus 30c for each \$1 over \$25,000
\$75,001 – \$150,000	\$17,850 plus 40c for each \$1 over \$75,000
\$150,001 and over	\$47,850 plus 45c for each \$1 over \$150,000

Individual Tax Rates – Non-Resident

Non Residents 2013 – 2014 - 2015 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$80,000	32.5c for each \$1
\$80,001 – \$180,000	\$26,000 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$63,000 plus 45c for each \$1 over \$180,000

Foreign Residents are not required to pay the Medicare levy

Non Residents 2011 & 2012 Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$37,000	29c for each \$1
\$37,001 – \$80,000	\$10,730 plus 30c for each \$1 over \$37,000
\$80,001 – \$180,000	\$23,630 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$60,630 plus 45c for each \$1 over \$180,000

These rates **do not** include the Flood levy
Foreign Residents are not required to pay the Medicare levy

Non-residents - 2010 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$35,000	29c for each \$1
\$35,001 – \$80,000	\$10,150 plus 30c for each \$1 over \$35,000
\$80,001 – \$180,000	\$23,650 plus 38c for each \$1 over \$80,000
\$180,001 and over	\$61,650 plus 45c for each \$1 over \$180,000

Non-residents - 2009 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$34,000	29c for each \$1
\$34,001 – \$80,000	\$9,860 plus 30c for each \$1 over \$34,000
\$80,001 – \$180,000	\$23,660 plus 40c for each \$1 over \$80,000
\$180,001 and over	\$63,660 plus 45c for each \$1 over \$180,000

Non-residents - 2008 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$30,000	29c for each \$1
\$30,001 – \$75,000	\$8,700 plus 30c for each \$1 over \$30,000
\$75,001 – \$150,000	\$22,200 plus 40c for each \$1 over \$75,000
\$150,001 and over	\$52,200 plus 45c for each \$1 over \$150,000

Non-residents - 2007 Tax Rates

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$25,000	29c for each \$1
\$25,001 – \$75,000	\$7,250 plus 30c for each \$1 over \$25,000
\$75,001 – \$150,000	\$22,250 plus 40c for each \$1 over \$75,000
\$150,001 and over	\$52,250 plus 45c for each \$1 over \$150,000