

# Lecture 1: Introduction to the Tax System

---

## Sources of Taxation Law

---

### 1. Statute Law

- Form of taxation legislation such as ITAA36 & ITAA97
- Made by parliament & contained in statutes

### 2. Case Law

- Decisions of the court
- Also by Administrative Tribunal in interpreting statutes
- Published in electronic databases, casebooks or loose-leaf services

### 3. Australian Taxation Office

- Administers the income tax system/ legislation for taxes/ superannuation
- Affect revenue systems such as aggressive tax planning, persistent tax debtors, globalisation & cash economy
- ATO interpretations/ actions create informal law

## Legislation

---

### Income Tax Assessment Act 1936:

- Amended every year
- Substantial portions of Act still in force
- Govern the imposition, collection & administration of Commonwealth income tax revenue

### Tax Law Improvement Project

- Established to restructure, rewrite & renumber income tax law
- Resulted in the *Income Tax Assessment Act 1997*

### Income Tax Assessment Act 1997

- Replaced some, but not all ITAA36.
- Clearer definitions & concepts without changing substance
- Contains general rules dealing with liability to tax
- Accomplished in stages, only 3 formal instalments enacted
- **ALWAYS START WITH THIS ONE FIRST**

### Taxation Administration Act 1953

- Administration: collection of tax revenue, tax offences, consequences of committing tax offences & course of action available to taxpayers in event of dispute

### Fringe Benefits Tax Assessment Act 1986

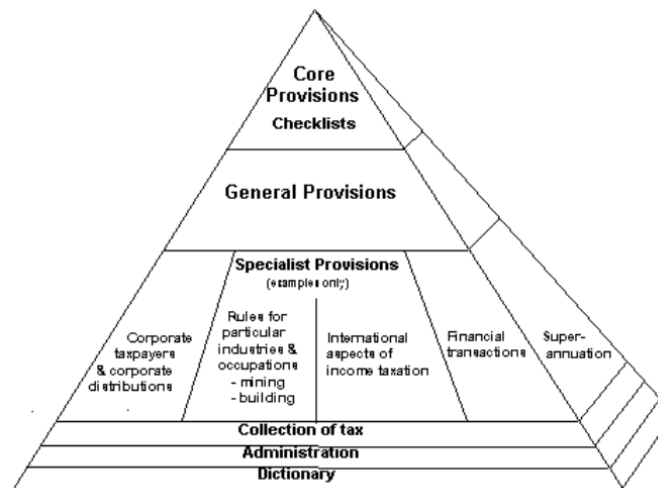
- Impose tax on certain transactions which would otherwise fall outside the income tax assessment regime

### A New Tax System (GST) Act 1999

- Consumption based → major tax reform

## Tax Pyramid (Section 2-5 ITAA 97)

---



- Illustrates the way income tax is organised, moving core provisions at the top to general rules of wide application, then specialised topics.

## What is Income Tax?

---

- Refers to taxpayer's taxable income for the income year
- Tax levied directly on personal income

## Taxable Income

S4.15(1):

$$\text{TAXABLE INCOME} = \text{ASSESSABLE INCOME} \text{ less } \text{DEDUCTIONS}$$

## Assessable Income

- Calculate individual's/ company's income tax due

Consists of:

- S6.5: Income according to ordinary concepts ("ordinary income")
- S6.10: Other amounts included in assessable income under provision of ITAA36/ ITAA97

## Exempt Income

- S6.20: Assessable income made exempt by provision of the Act/ Commonwealth law

## Deductions

- General deduction
- Specific deduction

## Key Phrases

---

- **Taxpayer:** person who pays tax
- **Entity:** an organisation/ company
- **Income Year:** Same as the financial year (S4.10) (i.e. 1 July to 30 June)
- **Offsets/ Rebates:** Cancel an accounting entry with an equal but opposite entry
- **PAYG:** Making regular payments towards your expected annual income tax liability

## Income tax rates

---

- Do not include the Medicare Levy of 2%

### 2013-2016 TAX RATES FOR RESIDENT INDIVIDUALS

Taxable Income	Tax Rate
\$0 to \$18 200	Nil
\$18 201 to \$37 000	19c for each \$1 over \$18 200
\$37 001 to \$80 000	\$3 572 plus 32.5c for each \$1 over \$37 000
\$80 001 to \$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

### 2011 & 2012 TAX RATES FOR RESIDENT INDIVIDUALS

Taxable Income	Tax Rate
\$0 to \$6 000	Nil
\$6 001 to \$37 000	15c for each \$1 over \$6 000
\$37 001 to \$80 000	\$4 650 plus 30c for each \$1 over \$37 000
\$80 001 to \$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

### 2010 TAX RATES FOR RESIDENT INDIVIDUALS

Taxable Income	Tax Rate
\$0 to \$6 000	Nil
\$6 001 to \$35 000	15c for each \$1 over \$6 000
\$35 001 to \$80 000	\$4 350 plus 30c for each \$1 over \$35 000
\$80 001 to \$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

### 2009 TAX RATES FOR RESIDENT INDIVIDUALS

Taxable Income	Tax Rate
\$0 to \$6 000	Nil
\$6 001 to \$34 000	15c for each \$1 over \$6 000
\$34 001 to \$80 000	\$4 200 plus 30c for each \$1 over \$34 000
\$80 001 to \$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

### 2008 TAX RATES FOR RESIDENT INDIVIDUALS

Taxable Income	Tax Rate
\$0 to \$6 000	Nil
\$6 001 to \$30 000	15c for each \$1 over \$6 000
\$30 001 to \$75 000	\$3 600 plus 30c for each \$1 over \$30 000
\$75 001 to \$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

## Medicare Levy

### Individuals

- Pay a Medicare Levy equal to 2% of their taxable income for 2015/16 income year (**\$251S ITAA36**)
- Cease Australian residence/ become, charged only while an Australian resident

### Low Income Tax Offset

- S159N: maximum LITO available for resident taxpayers whose taxable income is less than **\$66 667**
- Non-refundable: used to reduce tax liability to nil (cannot create/ increase tax refund)
- Maximum offset: \$445 & allowed where taxable income is **\$37 000 or less**.

#### Rate of Low Income Tax Offset

Income Year(s)	Taxable Income ≤ \$37 000	Taxable Income \$37 001 to \$66 666	Taxable Income ≥ \$66 667
2013-2017	\$445	445 less (1.5% x (TI – 37 000))	No Tax Offset
Income Year(s)	Taxable Income ≤ \$30 000	Taxable Income \$30 001 to \$67 499	Taxable Income ≥ \$67 500
2011-2012	\$1500	1500 less (4% x (TI – 30 000))	No Tax Offset
Income Year(s)	Taxable Income ≤ \$30 000	Taxable Income \$30 001 to \$63 749	Taxable Income ≥ \$63 750
2010	\$1350	1350 less (4% x (TI – 30 000))	No Tax Offset
Income Year(s)	Taxable Income ≤ \$30 000	Taxable Income \$30 001 to \$59 999	Taxable Income ≥ \$60 000
2009	\$1200	1200 less (4% x (TI – 30 000))	No Tax Offset
Income Year(s)	Taxable Income ≤ \$30 000	Taxable Income \$30 001 to \$48 749	Taxable Income ≥ \$48 750
2008	\$750	750 less (4% x (TI – 30 000))	No Tax Offset

#### LOW INCOME TAX OFFSET

Ima Poorman, a lecturer has a taxable income of \$50 000 in current income year.

*Calculate the Low-Income Tax Offset Entitlement:*

$$\$445 - (1.5\% \times (50\,000 - 37\,000)) = \$250$$

#### LIMIT TO LOW INCOME TAX OFFSET

Zoe, a student, had a taxable income of \$20 000 in 2015/16.

*Calculate her Low-Income Tax Offset Entitlement and Tax Payable:*

$$\text{Tax on } \$20\,000 \text{ (} 20\,000 - 18\,200 \text{) } \times 19\% = \$342$$

$$\text{Less low-income tax offset } \$445 \text{ (limit } \$342 \text{) } = (342)$$

$$\text{Tax Payable} = \text{NIL}$$

*The taxable income in this case is less than \$37 000, so therefore can have a low-income tax offset of \$445. However, due to it being non-refundable, it is limited to \$342 → NIL*

## CALCULATION OF TAX PAYABLE

Johnny Drama, single resident taxpayer, had a taxable income of \$52 400. PAYG tax withheld from Johnny's gross wages was \$8 200. He does not have adequate private hospital cover insurance.

*Calculate Johnny's refund due/ balance payable for 2015/16 (Ignore Medicare levy):*

Tax on \$52 400 ( $52\,400 - 37\,000$ ) * 32.5% + 3572	= \$8 577
Less low-income tax offset: $445 - (1.5\% \times (52\,400 - 37\,000))$	= (214)
Less PAYG	= (8 200)
Balance Payable	= \$163

Assuming above related to 2009/10 income year, calculate refund due/ balance payable (Ignore Medicare Levy):

Tax on \$52 400 ( $52\,400 - 35\,000$ ) * 30% + 4360	= \$9580
Less low-income tax offset: $1350 - (4\% \times (52\,400 - 30\,000))$	= (\$454)
Less PAYG	= (8200)
Balance Payable	= \$926

## Tax Free Threshold

---

- Not affected by temporary absences such as holidays

## Ceasing to be a Resident

- Leaving permanently = tax free threshold for income year will be low

$$\text{\$13 464} + \frac{(\text{\$4 736} \times \textit{number of months a resident of Australia})}{12}$$

## CEASING RESIDENCE – ADJUSTED TAX FREE THRESHOLD

Stephen, an Australian resident tax payer permanently departed Australia on 25 December 2015. From 1 July 2015 until 25 December 2015, derived \$30 000 taxable income.

*Calculate his adjusted tax free threshold and tax payable (ignore Medicare Levy):*

Entitled to 6 months of tax-free threshold for income year.

$$\text{\$13 464} + \frac{(\text{\$4 736} \times 6)}{12} = \text{\$15 832}$$

Tax on \$30 000: $(30\,000 - 15\,832) \times 19\%$	= \$2691.92
Less low-income tax offset	= (445)
Balance Payable	= \$2246.92

## Becoming a Resident

- Entering Australia with purpose of staying permanently, tax-free threshold is adjusted.
- When becoming an Australian resident

## BECOMING A RESIDENT – ADJUSTED TAX FREE THRESHOLD

Mi Grant became an Australian resident for tax purposes on 15 October 2015. From 1 November 2015 to 30 June 2016 she derived \$68 000 taxable income.

*Calculate her adjusted tax free threshold and tax payable (ignore Medicare Levy):*

$$\text{\$13 464} + \frac{(\text{\$4 736} \times 9)}{12} = \text{\$17 016}$$

Tax on \$68 000: $(68\,000 - 37\,000) \times 32.5\%$	= \$10 075
$(37\,000 - 17\,016) \times 19\%$	= \$3796.96
$((68\,000 - 37\,000) \times 32.5\% + 3572 + (18\,200 - 17\,016) \times 19\%)$	= \$13 871.96