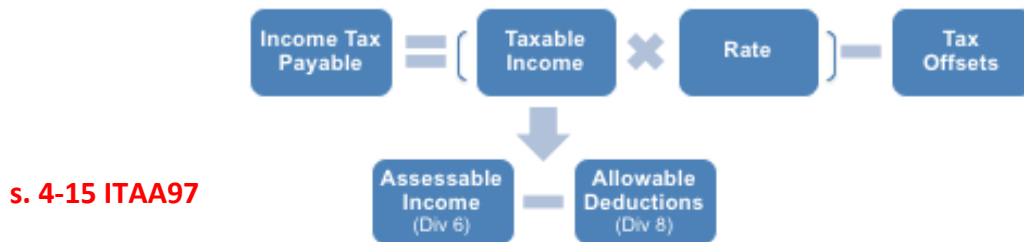


# INCOME TAX FORMULA, RATES, LEVIES AND CHARGES

## INCOME TAX FORMULA

- Income tax is payable each year by each individual and company, and certain other entities: **s 3-5 ITAA97**
- Calculation of a taxpayer's **income tax liability** for the financial year is based on the formula in **s 4-10 ITAA97**:



Financial year (i.e. tax period) means a 12 month-period beginning 1 July (substituted accounting periods may be allowed) **s. 4-10(1) ITAA97**

## ASSESSABLE INCOME: ORDINARY AND STATUTORY INCOME



### Ordinary income (s 6-5 ITAA97)

- Assessment of gains that have an income character as set out in the doctrines developed by the courts
- Referred to as “ordinary concepts”

### Statutory income (s 6-10 ITAA97)

- Any income that the government has decided should be taxed as assessable income but doesn't fall under category of ordinary income.
- Assessment of amounts by a specific provision in the income tax legislation: see Div 10.

## EXEMPT INCOME AND NON-ASSESSABLE NON-EXEMPT INCOME

*Some amounts of ordinary or statutory income may be characterised as 'exempt income' or 'non-assessable non-exempt income' → not assessable s. 6-1(2)-(4) ITAA97*

### Exempt income

- Income that is specifically made exempt (i.e. non-taxable) by the income tax legislation (see Subdivision 11-A)
- Two classes of exempt income:

1. Exempt is exempt: s 11-5, e.g. charitable organisations
2. Income is of a kind that is exempt: s 11-15, e.g. certain education scholarships

### **Non-assessable non-exempt income**

- Not assessable even though they are not specifically “exempt income” (see Subdivision 11-B)

## **DEDUCTIONS: GENERAL AND SPECIFIC DEDUCTIONS**

*Expenses incurred in gaining assessable income*



### **General deductions**

- Losses or outgoings that may be claimed provided they satisfy the general deduction rule in **s. 8-1 ITAA97**

### **Specific deductions**

- Specific provisions in the income tax legislation allowing particular losses or outgoings to be deducted (see **Div. 25 ITAA97**)

## **INCOME TAX FORMULA: TAX RATES**

- Applicable rate of income tax depends on the type of taxpayer set out in the **Income Tax Rates Act 1986**. Types include:
  - **Companies:** flat rate of **30%** or 27.5% for companies that are under the turnover threshold of \$25m (for 2017-18)
  - **Individuals: progressive rates** (differs for resident, foreign resident and working holiday); resident rates:

Taxable income	Tax on this income for 2017-18 for residents
0 - \$18,200	Nil
\$18,201 - \$37,000	19c for each \$1 over \$18,200
\$37,001 - \$87,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$87,001 - \$180,000	\$19,822 plus 37c for each \$1 over \$87,000
\$180,001 and over	\$54,232 plus 45c for each \$1 over \$180,000

## **LEVIES AND CHARGES**

- Australian tax system is also a collection mechanism for other amounts payable by Australian tax residents. Examples:
  - Medicare levy
  - Medicare levy surcharge
  - Repayment of higher education debts (HELP)

## LEVIES AND CHARGES: MEDICARE LEVY

- Basic levy payable:

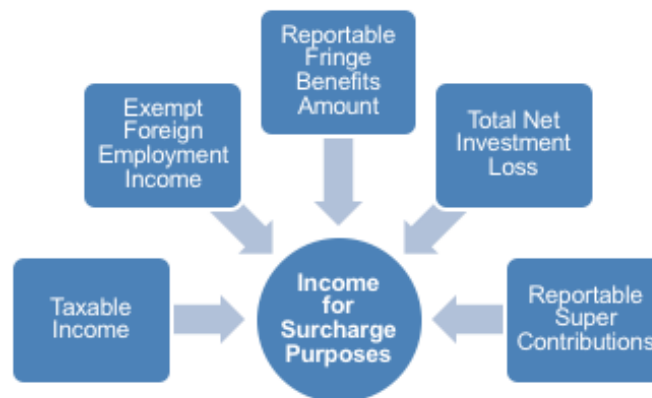
$$\text{Medicare Levy} = \text{Taxable Income} \times 2\%$$

*Remember: Taxable income = assessable income – deductions (s. 4-15 ITAA97)*

- Certain individuals are exempt from the Medicare levy, examples include:
  - Non-residents
  - Persons not entitled to Medicare benefits in respect of services, treatment or care (exemption certificate required)

## LEVIES AND CHARGES: MEDICARE LEVY SURCHARGE

- Medicare levy surchage applies to individuals who **do not have private health cover** and their 'income for surcharge purposes' exceeds a **threshold**
- Income for surcharge purposes:

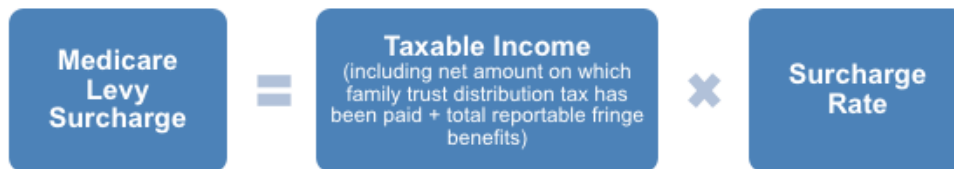


Surcharge rates for 2017-18:

Income for Surcharge Purposes		Surcharge Rate
Singles	Families	
0- 90,000	0 – 180,000	0%
90,001 – 105,000	180,001 – 210,000	1%
105,001 – 140,000	210,001 – 280,000	1.25%
140,001 +	280,001 +	1.5%

Once surcharge is payable, the amount payable is calculated as:

$$\text{Medicare Levy Surcharge} = \text{Income for surcharge purposes} \times \text{Surcharge Rate}$$



## LEVIES AND CHARGES: REPAYMENTS OF HIGHER EDUCATION DEBTS

- Higher education students who defer payment of their fees through the (HELP) or Higher Education Contribution Scheme (HECS) make compulsory repayments through the tax system
- Amount of repayment is based on:
  - The taxpayer's "**Repayment Income**" ("RI"); and
  - HELP repayment **rate** for 2017-18 income year: **progressive rate** ranging from 4% when RI is \$55,874 to 8% when RI is \$103,766 and above
- Proposed decrease to repayment threshold to \$42,000 with more repayment rates from 1 July 2018
- Taxpayers living overseas with an outstanding loan required to make repayments similar to if they were living in Australia