The Australian Taxation System

Income tax

Income tax is payable for each financial year by individuals and entities such as companies, trusts and superannuation funds. Individuals who are Australian residents for tax purposes, and some trustees, are also liable to pay a Medicare levy each year.

Taxable income is calculated by subtracting allowable deductions from assessable income. Assessable income can include income such as salary or wages, interest, rent, dividends and imputation credits.

Capital gains may also be included in assessable income. Tax is levied upon the net capital gains arising from the disposal of assets acquired on or after 20th September 1985.

Deductions include losses or outgoings incurred in gaining or producing assessable income, or necessarily incurred in carrying on a business for that purpose. Deductions are also allowed under specific provisions of the law, such as for depreciation and gift provisions.

Tax offsets reduce the amount of tax payable and are applied by subtracting them from gross tax payable. Examples of tax offsets are the Superannuation Contribution offsets, Imputation Credits, Senior Australian Tax offset and the Low-Income offsets.

The following rates and figures apply for the 2004/05 financial year unless otherwise specified.

Personal tax rates

The gross tax of an individual is calculated by applying progressively greater marginal rates to successive slices of taxable income as follows:

Taxable	Income	Marginal Tax Rate	Tax Payable
$0 to	$6,000	Nil	Nil
$6,001 to	$21,600	17%	Nil + 17% of excess over $6,000
$21,601 to	$58,000	30%	$2,652 + 30% of excess over $21,600
$58,001 to	$70,000	42%	$13,572 + 42% of excess over $58,000
$70,000	or more	47%	$18,612 + 47% of excess over $70,000

Company tax rate

Companies are currently taxed at a flat rate of 30%.

Superannuation fund (earnings) tax rate

Income within a superannuation fund is subject to a maximum tax rate of 15%. Tax deductible contributions are also income of a superannuation fund and so are subject to this tax. Deductible contributions include employer Superannuation Guarantee, salary sacrifice and the deductible component of self employed contributions.

Allocated pension (earnings) tax rate

At present the income and capital gains arising within an allocated pension are not subject to tax. Pension payments from an allocated pension- while subject to the above personal tax rates- may benefit from the taxable part of the payment being reduced by a tax-deductible amount. Further, the tax on the remaining taxable portion may be reduced by a tax offset of up to 15%.

Imputation credits

When you receive a dividend, it may be fully franked, partially franked or unfranked. "Franked" simply means that there is a tax credit attached to the dividend, representing the amount of tax that the company has already paid.

As a shareholder you are generally entitled to a tax offset, which is equal to the amount of the franking credit. Unused franking credits, that is the balance remaining when a persons tax liability is reduced to nil, will be refunded to individuals (and certain other entities).

Capital gains tax

Tax applies to net capital gains realised on assets acquired on or after 20 September 1985. Assets acquired prior to that date would generally not be subject to income tax unless they were acquired with the intention of reselling at a profit or as part of a profit-making undertaking or scheme. Profits arising from these transactions are not capital gains, rather they are treated as 'ordinary income' amounts.

From 19th September 1999, the CGT laws were changed. From this date, where assets (which are subject to the CGT regime) are held for more than twelve months, the gain can be determined by either of the following two methods:

Frozen indexation method

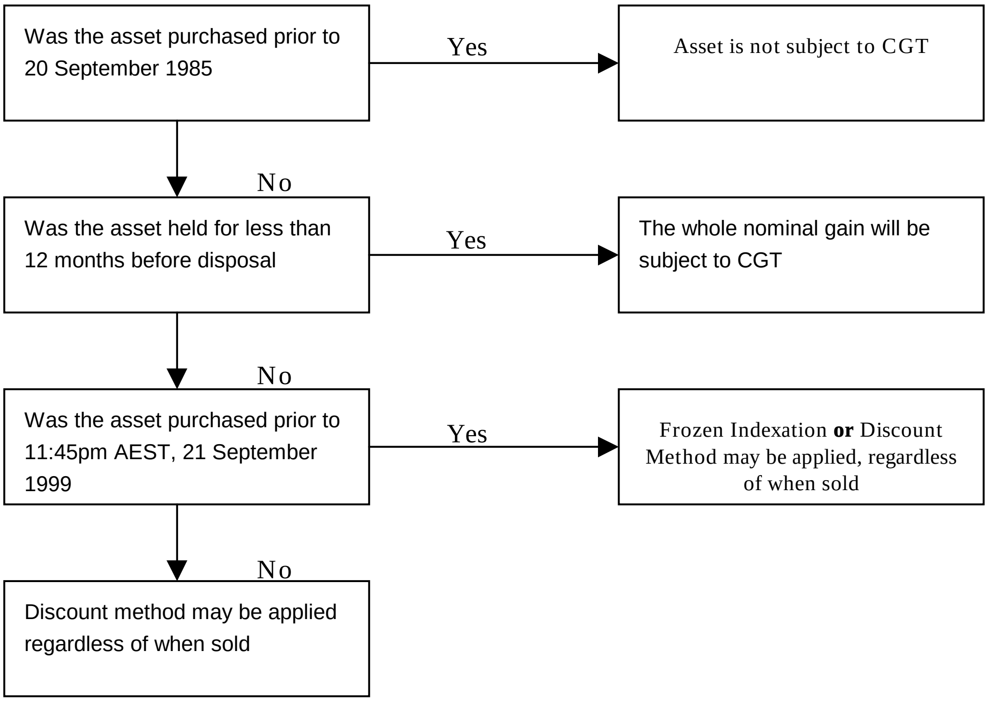
Sale price less cost base indexed by the Consumer Price Index to no later than 30th September, 1999, or;

Discount method

- Individuals - 50% of the nominal gain (sale price less original acquisition price)
- Superannuation Fund - 2/3 of the nominal gain.

The net gain is calculated by the appropriate method and then included in the taxpayer's assessable income and subject to tax at the appropriate rates.

The following flowchart shows where these methods will be applicable:



Fringe benefits tax (FBT)

FBT is a tax on employers (which may be passed on to employees) that is applied to the value of non-cash benefits provided to employees in respect of their employment. FBT, at the rate of 48.5% is calculated on the total taxable value of fringe benefits provided by the employer, or in respect of, employment during the year.

A benefit is broadly defined and includes any right, privilege, service or facility. The term is defined widely enough to capture almost every imaginable item provided to you, such as car and car parking benefits, loan benefits, debt waiver benefits, expense payment benefits, housing benefits. Some benefits such as superannuation, certain work-related items eg mobile phones and laptop computers, newspapers and periodicals are exempt from the definition of benefits.

Employers are required to record reportable fringe benefit amounts on your payment summary where the taxable value of certain benefits provided exceeds $1,000. The grossed-up value of the fringe benefit is not included in your assessable income for the purpose of calculating income tax. However, it is included for the purpose of assessing Medicare and superannuation contributions surcharge.

Medicare levy

With limited exceptions, residents of Australia are liable to pay a Medicare levy based on the amount of his/her taxable income for the year.

The rate of the Medicare levy for 2004/05 is 1.50% of your taxable income. There is no ceiling on the amount of levy payable. The Medicare levy is not payable where taxable income for 2004/05 is $15,529 or less, or family income is $26,205 or less.

For persons over Age or Service Pension age, the Medicare levy is not payable where taxable income for 2004/05 is less than $20,500, or family income is less than $33,612.

These thresholds are increased for each dependent child you have.

Medicare levy surcharge

You will be liable for an additional 1% Medicare Levy if your taxable income is above $50,000 (single) or $100,000 (couple) and you do not have adequate private patient hospital insurance cover. The $100,000 family income threshold is increased by $1,500 for the second and each subsequent dependent child. The surcharge is payable on your entire taxable income, not merely the portion of taxable income that exceeds the relevant threshold for determining liability to the surcharge.

Tax offsets

Low income tax offset

A maximum offset of $235 is available to you where you earn less than $21,600 taxable income. It reduces by four cents for every one dollar over $21,600 and it phases out at $27,475.

Senior Australian tax offset

This offset is available to you when you reach pension age (65 for a male and 62.5 for a female), if you have been Australian residents for ten years. The offset is available earlier (60 for a male and 57.5 for a female) if you have been receiving the Service Pension from DVA or the Income Support Supplement.

The Senior Australian Tax Offset and thresholds are as follows:

	Offset Level	Shade-out Threshold*	Cut-out Threshold
Single	$2,230	$20,500	$38,340
Couple (each)	$1,602	$16,806	$29,622

* includes both the Senior Australian offset and the Low Income Tax offset from 1 July 2003

The shade-out threshold is the maximum taxable income at which you are entitled to the full offset. The offset reduces by 12.5 cents for each dollar of taxable income in excess of the shade-out threshold. The cut-out threshold is the level of taxable income at which the offset reduces to nil. It is possible for either of you to transfer any unused portion of the offset to your partner if they are eligible for Senior Australian Tax Offset or the Pensioner Tax Offset.

Pensioner tax offset

This tax offset is available to you, when you are in receipt of a Social Security or Veterans' Affairs taxable pension, and have yet to attain age or service pension age from when more generous offsets apply. Age pension age is 65 for males and 62.5 for females. Service Pension age is 60 for males and 57 for females.

The Pensioner Tax Offset and thresholds for the 2003/04 year are as follows:

	Pensioner Offset	Shade-out Threshold	Cut-out Threshold
Single	$1,811	$16,653	$31,141
Couple-each	$1,324	$13,789	$24,381

The shade-out threshold is the maximum taxable income at which you are entitled to the full offset. The offset reduces by 12.5 cents for each dollar of taxable income in excess of the shade-out threshold.

The cut-out threshold is the level of taxable income at which the offset reduces to nil. It is possible for either of you to transfer any unused portion of the offset to your partner if they are eligible for Senior Australian Tax Offset or the Pensioner Tax Offset.

Private health insurance rebate

The Australian Government private health insurance rebate of 30 per cent took effect from 1 January 1999 and is designed to make private health insurance more affordable and more accessible. You must hold private health insurance with a registered health fund and as a minimum, take out hospital cover.

You may also attach ancillary cover to your policy. This rebate may be claimed in your tax return or via a reduced premium.

Spouse contributions offset

Spouse contribution provisions enable you to make superannuation contributions on behalf of your spouse, regardless of whether your spouse has ever been employed.

In some cases, an offset may be claimed for contributions made depending on the income earned by the spouse who receives the contribution.

The offset will be 18 per cent of the contribution made, up to a maximum contribution of $3,000. To obtain the full offset of $540, assessable income must be less than $10,800. The offset reduces proportionately for income above $10,800 before cutting out at $13,800.

Allocated pension and annuity offset

A 15 per cent offset on the taxable portion of a pension or annuity is generally available on pension or annuity payments received on or after turning age 55. The offset is calculated as follows:

15 % x (total pension payments - deductible amount)

This effectively reduces the tax you would otherwise pay on the income from the pension or annuity. If you have exceeded your Reasonable Benefit Limit (RBL) the excessive part of your pension or annuity does not attract the 15 per cent offset.