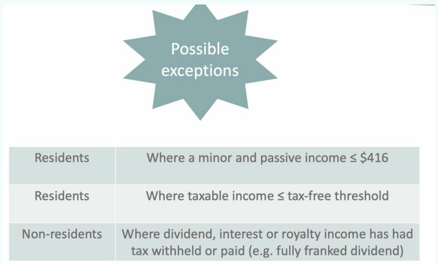
m4.1 Who to lodge Return? - Exceptions

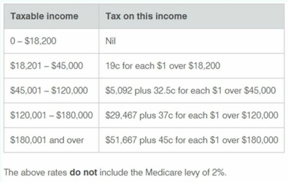


Residents	Where a minor and passive income ≤ $416
Residents	Where taxable income ≤ tax-free threshold
Non-residents	Where dividend, interest or royalty income has had tax withheld or paid (e.g. fully franked dividend)

Almost Everyone!!!

Possiblly Exceptions: No NEED to LODGE a RETURN

m4.1 Tax Equation & Tax Table

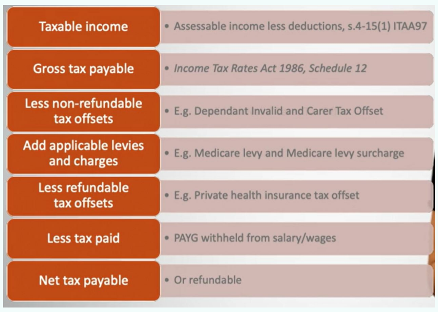


Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $45,000	19c for each $1 over $18,200
$45,001 – $120,000	$5,092 plus 32.5c for each $1 over $45,000
$120,001 – $180,000	$29,467 plus 37c for each $1 over $120,000
$180,001 and over	$51,667 plus 45c for each $1 over $180,000

The above rates **do not** include the Medicare levy of 2%.

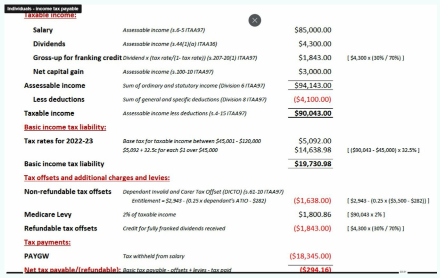
INCOME TAX = [TAXABLE INCOME X TAX RATE] - TAX OFFSET

m4.1 Tax Flow & Calculation Steps



Taxable income	Assessable income less deductions, s.4-15(1) ITAA97
Gross tax payable	*Income Tax Rates Act 1986, Schedule 12*
Less non-refundable tax offsets	E.g. Dependant Invalid and Carer Tax Offset
Add applicable levies and charges	E.g. Medicare levy and Medicare levy surcharge
Less refundable tax offsets	E.g. Private health insurance tax offset
Less tax paid	PAYG withheld from salary/wages
Net tax payable	Or refundable

m4.1 Tax Calculation - Sample



Individuals - income tax payable

Taxable income:			
Salary	*Assessable income (s.6-5 ITAA97)*	$85,000.00	
Dividends	*Assessable income (s.44(1)(a) ITAA36)*	$4,300.00	
Gross-up for franking credit	*Dividend x (tax rate/(1- tax rate)) (s.207-20(1) ITAA97)*	$1,843.00	[$4,300 x (30% / 70%)]
Net capital gain	*Assessable income (s.100-10 ITAA97)*	$3,000.00	
Assessable income	*Sum of ordinary and statutory income (Division 6 ITAA97)*	$94,143.00	
Less deductions	*Sum of general and specific deductions (Division 8 ITAA97)*	($4,100.00)	
Taxable income	*Assessable income less deductions (s.4-15 ITAA97)*	**$90,043.00**	
Basic income tax liability:			
Tax rates for 2022-23	*Base tax for taxable income between $45,001 - $120,000*	$5,092.00	
	$5,092 + 32.5c for each $1 over $45,000	$14,638.98	[($90,043 - $45,000) x 32.5%]
Basic income tax liability		**$19,730.98**	
Tax offsets and additional charges and levies:			
Non-refundable tax offsets	*Dependant Invalid and Carer Tax Offset (DICTO) (s.61-10 ITAA97)*		
	Entitlement = $2,943 - (0.25 x dependant's ATIO - $282)	($1,638.00)	[$2,943 - (0.25 x ($5,500 - $282))]
Medicare Levy	*2% of taxable income*	$1,800.86	[$90,043 x 2%]
Refundable tax offsets	*Credit for fully franked dividends received*	($1,843.00)	[$4,300 x (30% / 70%)]
Tax payments:			
PAYGW	*Tax withheld from salary*	($18,345.00)	
Net tax payable/(refundable):	*Basic tax payable - offsets + levies - tax paid*	($294.16)	

m4.2 Assessable Income

TYPE	Details
1. EMPLOYEE--RELATED INCOME	-Salary, wage, gratuity, commission, allowance (but not defined fringe benefits).
	-* Fringed Benefits taxed as FBT
2. FOREIGN-SOURCE ORDINARY INCOME	-Generally taxable for residents
	-Exempt if continuous period of foreign service >= 91 days for certain charitable, aid and gov't work (NOT Taxable in Au)

m4.2 Assessable Income (cont)

	-Not working for those org might end up paying tax both overseas and Au.
	-Double taxed can be relieved by the application of FITO
3. SHARING ECONOMY INCOME	-Generally same tax obligation to traditional service providers (unless reasonably considered a hobby or recreational pursuit)
	e.g Air BNB, Uber
4. DIVIDENDS	**Franked Dividends** include franking credits for company tax already paid (added to the assessable income, then offsets tax payable)
	-Similar treatment for dividends received from NR company (but with a limit on the offset)
	-NR don't received Franking Credits and **UNfranked dividends** have withholding tax applied

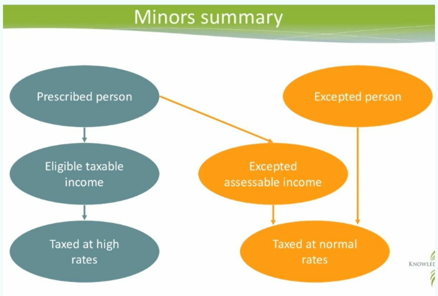
m4.2 Assessable Income (cont)

5. INTEREST	-From banks, investment, children's savings acct operated by Taxpayer, ATO and foreign sources (gross it up and include in the assessable income and apply offset wtax being paid
6. PROPERTY	-Rent, Rent-related pmt eg. booking fees, insruance compensation, bond, or reimbursements for deductible expenditure
	-Includes monetary value of goods/services received.
	-Share/Apportionment income for joint/in-common ownership
7. TRUST INVESTMENT	-Credits from cash mgt trust, MM trust, Unit trust, UITF
	-if BEneficiary to declare entitlement to trust income (**even if not actually paid**)

m4.2 Assessable Income (cont)

8. Royalties	-Payments Received for the Use of Rights (copyright, comm'l info,film) either Periodic, Irregular or One-Off
	-Assessable Income ► grossed up if coming from overseas which had been subjected to wtax)

m4.2 Tax on Minors - Overview



Eligible assessable income tax rates are substantial = on income of $1,308 or higher will be top marginal rate of 45% is applied

**Eligible Taxable Income of a Prescribed Person that we applied the penalty rate...
1. Family trust distribution
2. Business Income of a Trust Estate
3. Passive Income other than from e.g. deceased estates.**Eligible assessable income** tax rates are substantial = on income of $1,308 or higher will be top marginal rate of 45% is applied

m4.2 Tax on Minors - Div6AA

**DIV6AA - Anti-Avoidance

1. Special Rates on tax for certain types of unearned income
2. Preventing Diversion of income to children (limit tax advantages)

m4.2 MINOR Tax Treatment (Div 6AA ITAA36)

Terminology	
Excepted persons	Minors who work full time or suffer from incapacity or disability ► **Div6AA DOES NOT APPLY**
Prescribed persons	Other minors other than above ► **Div6AA Applies**

m4.2 MINOR Tax Treatment (Div 6AA ITAA36) (cont)

Excepted assessable income	Prescribed person Earnings subjected to the normal tax treatment for individuals applies to that income. Includes minor's employment income or minor's business income (participated in daily operations, real & effective control over operations and disposal of income)
Eligible **assessable** income	Prescribed person Earnings subjected to Div6AA tax provision, effectively increasing tax rate on the taxable income. Includes "unearned income" e.g. business income (trust distribution) or passive income (dividends or interest)

m4.2 MINOR Tax Treatment (Div 6AA ITAA36) (cont)

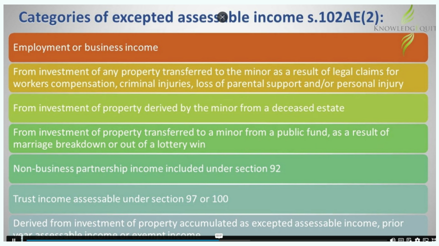
Eligible **taxable** income	Prescribed person ► Eligible Assessable Income - Deductions - Proportionate Share of any apportioned deduction (gifts).

Eligible assessable income tax rates are substantial = on income of $1,308 or higher will be top marginal rate of 45% is applied

**Eligible Taxable Incom of a Prescribed Person that we applied the penalty rate...

1. Family trust distribution
2. Business Income of a Trust Estate
3. Passive Income other than from e.g. deceased estates.

m4.2 MINOR - Categories of Assesable Income

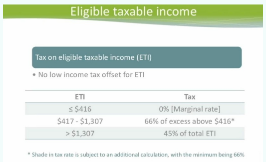


DIV6AA DOES NOT APPLY
SUBJECT TO NORMAL TAX TREATMENT OF AN IND

AT M4 Cheat Sheet

by ranele15 via cheatography.com/180956/cs/40762/

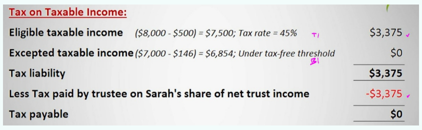
m4.2 MINOR - ETI Tax Rates



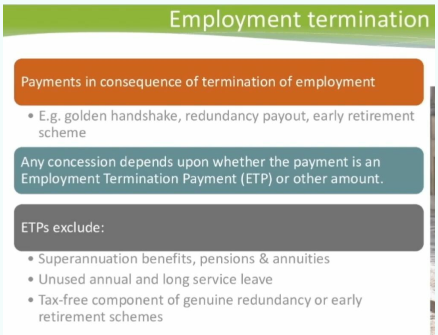
$416 is the effective tax-free amount applicable to a prescribed person for their eligible tax income - Div6AA

Reference - ITRA 1986, Schedule 11

m4.2 MINOR - Tax Calc sample

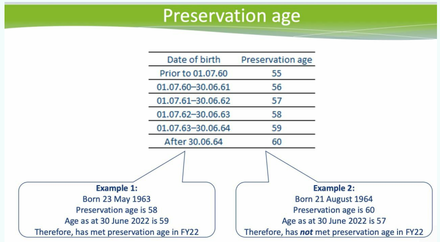


m4.3 Employment Termination Pmt - ETP Overview

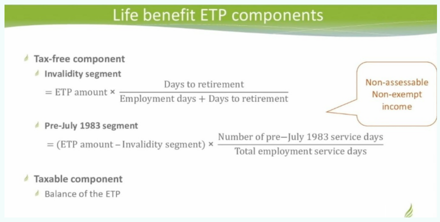


SPECIAL TYPE OF INCOME

m4.3 Preservation Age



m4.3 Life Benefit ETP Component



M4.3 Employment Termination Payments (ETPs)

1. Life Benefit Termination Payments	A. LBTF - **Tax Free** (Invalidity Segment or Any pre-July 1983 Segment)
	B. LBTF - **Taxable** remaining after tax-free component. Affected by the age of the person and amt received.
	B.1 Under ETP CAP OF $230,000 (2022/23)

M4.3 Employment Termination Payments (ETPs) (cont)

	B.1.1 Reached Preservation Age = 15%
	B.1.2 Not Reached Preservation Age = 30%
	B.1.3 Exceeds ETP Cap = taxable at top marginal rate (45% plus levies)
	B.2 *Whole of Income Cap** = $180,000 (2022/23)
2. Death Benefit Termination Payments	
3. Genuine Redundancy Payments	Excluded Payment ▸ Whole-of-income do not apply.
4. Early Retirement Scheme Payments	Excluded Payment ▸ Whole-of-income do not apply.
	Not Excluded Payment (e.g. lumpsum on retirement)
	-the applicable cap to determine any ETP tax offset is the *LESSER OF**:

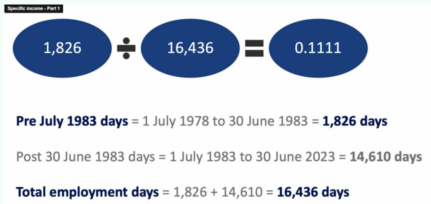
M4.3 Employment Termination Payments (ETPs) (cont)

ETP cap amount ($230K) or Whole-of-income cap ($180k)

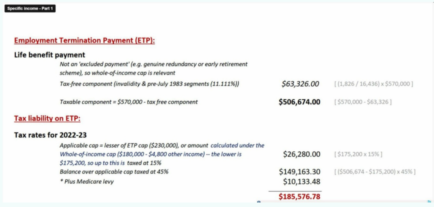
TAXABLE COMPONENT - is reduced by (1) ETP cap or (2) amount above cap taxed at top marginal rate.

Basically, any other taxable income of the IND (wages or other income) contributes towards the whole-of-income cap is reduced accordingly by such amount.

m4.3 LBTP - Tax Free Pre July 1983 Employment



m4.3 LBP - Problem Sample


Specific income - Part 1

Employment Termination Payment (ETP):

Life benefit payment

Not an 'excluded payment' (e.g. genuine redundancy or early retirement scheme), so whole-of-income cap is relevant

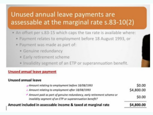
Tax-free component (invalidity & pre-July 1983 segments (11.111%))	$63,326.00	[(1,826 / 16,436) x $570,000]
Taxable component = $570,000 - tax free component	$506,674.00	[$570,000 - $63,326]

Tax liability on ETP:

Tax rates for 2022-23

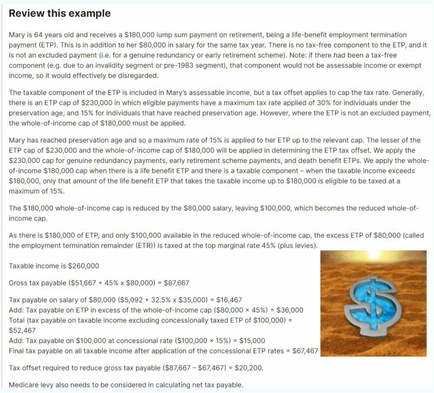
Applicable cap = lesser of ETP cap ($230,000), or amount calculated under the Whole-of-income cap ($180,000 - $4,800 other income) -- the lower is $175,200, so up to this is taxed at 15%	$26,280.00	[$175,200 x 15%]
Balance over applicable cap taxed at 45%	$149,163.30	[($506,674 - $175,200) x 45%]
* Plus Medicare levy	$10,133.48	
	$185,576.78	

m4.2 Unused Annual Leave



Included in Assessable Income taxed at marginal rate of 30% + 2% Medicare Levy

m4.3 ETP Tax Offset Calculation



Review this example

Mary is 64 years old and receives a $180,000 lump sum payment on retirement, being a life-benefit employment termination payment (ETP). This is in addition to her $80,000 in salary for the same tax year. There is no tax-free component to the ETP, and it is not an excluded payment (i.e. for a genuine redundancy or early retirement scheme). Note: if there had been a tax-free component (e.g. due to an invalidity segment or pre-1983 segment), that component would not be assessable income or exempt income, so it would effectively be disregarded.

The taxable component of the ETP is included in Mary's assessable income, but a tax offset applies to cap the tax rate. Generally, there is an ETP cap of $230,000 in which eligible payments have a maximum tax rate applied of 30% for individuals under the preservation age, and 15% for individuals that have reached preservation age. However, where the ETP is not an excluded payment, the whole-of-income cap of $180,000 must be applied.

Mary has reached preservation age and so a maximum rate of 15% is applied to her ETP up to the relevant cap. The lesser of the ETP cap of $230,000 and the whole-of-income cap of $180,000 will be applied in determining the ETP tax offset. We apply the $230,000 cap for genuine redundancy payments, early retirement scheme payments, and death benefit ETPs. We apply the whole-of-income $180,000 cap when there is a life benefit ETP and there is a taxable component – when the taxable income exceeds $180,000, only that amount of the life benefit ETP that takes the taxable income up to $180,000 is eligible to be taxed at a maximum of 15%.

The $180,000 whole-of-income cap is reduced by the $80,000 salary, leaving $100,000, which becomes the reduced whole-of-income cap.

As there is $180,000 of ETP, and only $100,000 available in the reduced whole-of-income cap, the excess ETP of $80,000 (called the employment termination remainder (ETR)) is taxed at the top marginal rate 45% (plus levies).

Taxable income is $260,000

Gross tax payable ($51,667 + 45% x $80,000) = $87,667

Tax payable on salary of $80,000 ($5,092 + 32.5% x $35,000) = $16,467
Add: Tax payable on ETP in excess of the whole-of-income cap ($80,000 × 45%) = $36,000
Total (tax payable on taxable income excluding concessionally taxed ETP of $100,000) = $52,467
Add: Tax payable on $100,000 at concessional rate ($100,000 × 15%) = $15,000
Final tax payable on all taxable income after application of the concessional ETP rates = $67,467

Tax offset required to reduce gross tax payable ($87,667 − $67,467) = $20,200.

Medicare levy also needs to be considered in calculating net tax payable.

m4.3 PSI Rule (Part2-42- ITAA97)

STEP 1: Determine if there's a PSI (Personal Services Income)

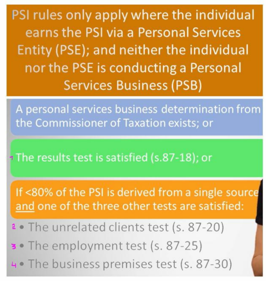
► Reward for the personal efforts or skills of an individual

► Income gained by an entity e.g. company, trust or partnership for the personal effort or skills of an individual

Not PSI on income mainly for:

► Supply or sale of goods
► Granting a right to use property
► Generated by an income-producing asset

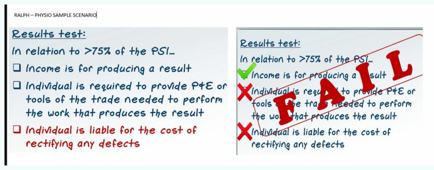
m4.3 PSI RULE Step 2: Is PSB Being Conducted?



PSI - Personal Service Income
PSB - Personal Service Business

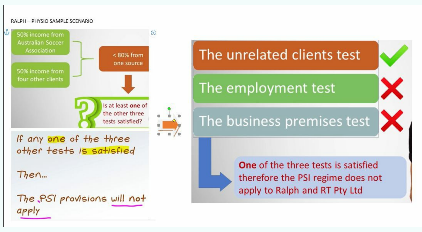
1. **Commissioner only likely to grant a Determination (in unusual circumstances)**
2. Otherwise, at least **ONE of the 4 tests** must be satisfied

m4.3 PSB Determination: (1) Results Tests

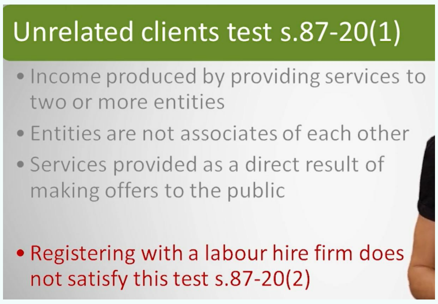


Therefore,
PSI regime applies
RT Pty Ltd must attribute all the fee revenue to Ralph
Ralph will be assessed on entire revenue amount in accordance with s.86.1 - IND ASSESSABLE INCOME

m4.3 PSB - <80% Single Sourced - Other Tests



m4.3 PSB - Unrelated Client Test x.87-20(1)



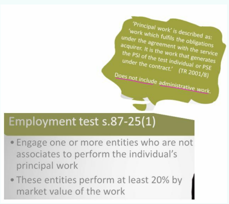
Say,

* there are 5 different entity clients

* **Unrelated clients test** is **satisfied**

* **PSI provision WILL NOT APPLY**

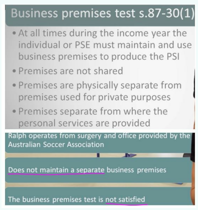
m4.3 PSB - EmploymentTest s.87-25(1)



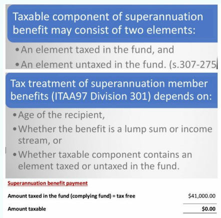
Ralph is the sole employee of RT P/L

Therefore, The **Employment Test** is **NOT SATISFIED**

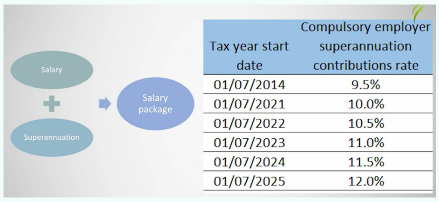
m4.3 PSB -Business Premises Test s.87-30(1)



m4.2 Superannuation Benefit Payment



M4.5 Superannuation



Tax year start date	Compulsory employer superannuation contributions rate
01/07/2014	9.5%
01/07/2021	10.0%
01/07/2022	10.5%
01/07/2023	11.0%
01/07/2024	11.5%
01/07/2025	12.0%

Two Primary Regulatorsof Superannuation Oversee the Operations:

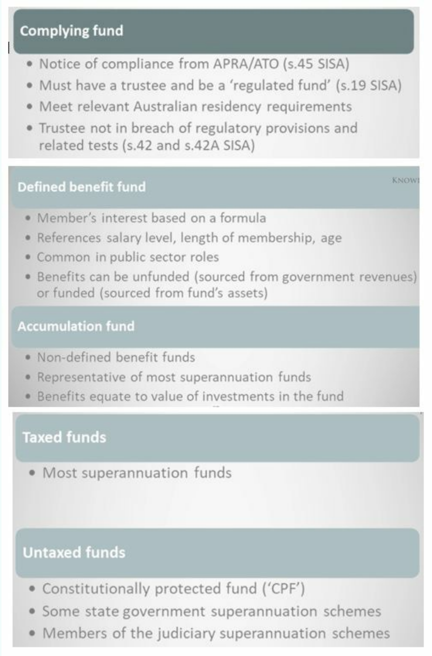
1. APRA (Australian Prudential Regulation Authority) - Most Superannuation Funds

2. ATO (Australian Taxation Office) - Self Managed Superannuation Funds

Rule Covers:

► Legal Structure
► Trustee Requirements
► Required Contributions
► Compliance Provisions
► Taxation

m4.5 Superannuation Distinction



Compliance

► Complying vs Non-complying

Interest

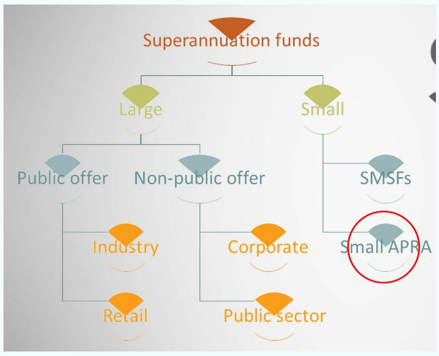
► Define Benefit vs Accumulation

Taxation

► Taxed vs Untaxed

- Taxed on: (1) Contribution Made (2) Earnings Generated (3) Benefits Released

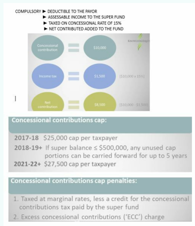
m4.5 Superannuation Funds



Category

1. Size ► Large vs Small
2. Availability ► Public vs Private
3. Structure ► RSEs (Registrable Superannuation Entities) vs SMSF(Self-managed Superannuation Funds)

m4.5 Tax on Super Contribution - CONCESSIONAL



CONCESSIONAL CONTRIBUTIONS

1. **By the Employer**

►Compulsory superannuation contributions

► Additional contributions from agreement

► Salary sacrifice arrangement

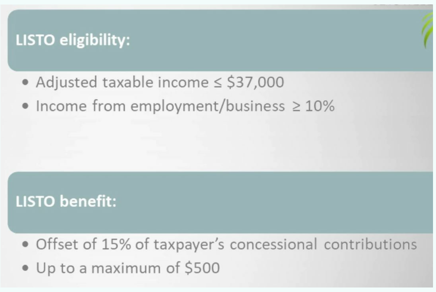
2. **By the Member**

► Notify the trustee

► Claim a tax deduction for the contribution

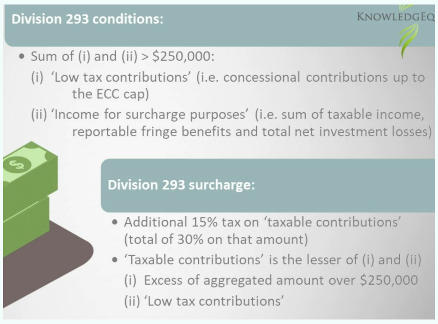
► Assessable income for, and taxable in, the fund

m4.5 CONCESSIONAL CONTRI ADJUSTED - LISTO



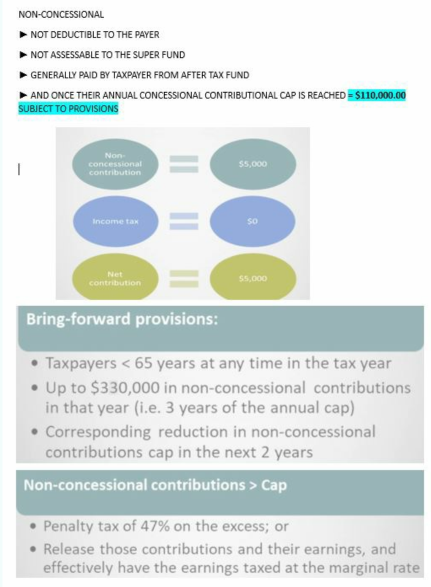
Low Income Superannuation Tax Offet

m4.5 CONCESSIONAL CONTI ADJMNT- Division 293



Adjustment for High Income Earner

m4.5 Tax on Super - NON CONCESSIONAL - TAXPAYER



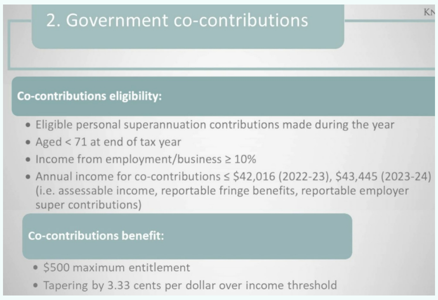
NON-CONCESSIONAL CONTRIBUTORS

1. TAXPAYER CONTRIBUTIONS FROM AFTER TAX FUND
2. GOVERNMENT CO-CONTRIBUTIONS
3. SPOUSE CONTRIBUTION

m4.5 Super Balance Cap

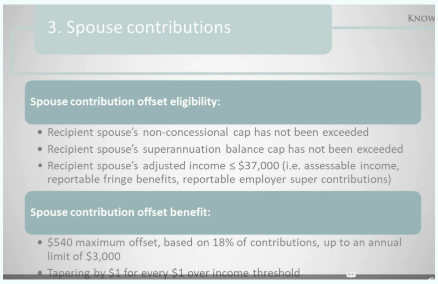
CONCESSIONAL CONTRIBUTIONS CAP
NON-CONCESSIONAL CONTRIBUTIONS CAP

m4.5 Tax on Super - NON CONCESSIONAL - GCC



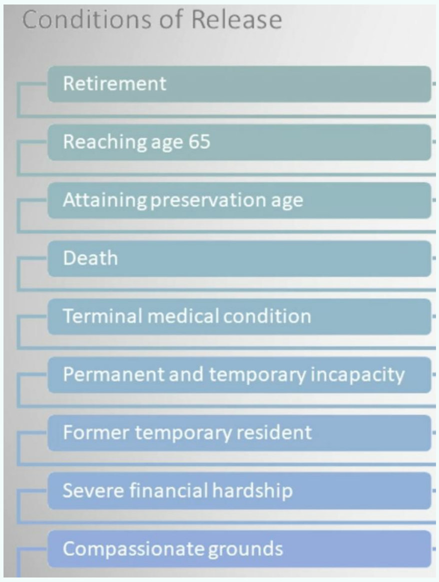
NON-CONCESSIONAL CONTRIBUTORS
1. TAXPAYER CONTRIBUTIONS FROM AFTER TAX FUND
2. **GOVERNMENT CO-CONTRIBUTIONS FOR LOW INCOME EARNERS**
3. SPOUSE CONTRIBUTION

m4.5 Tax on Super - NON CONCESSIONAL - SPOUSE

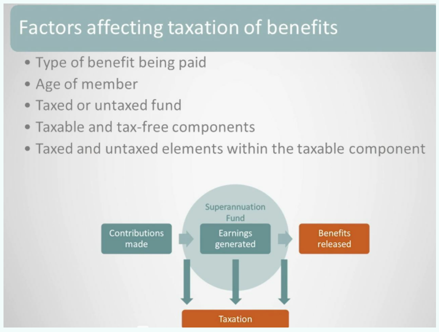


NON-CONCESSIONAL CONTRIBUTORS
1. TAXPAYER CONTRIBUTIONS FROM AFTER TAX FUND
2. GOVERNMENT CO-CONTRIBUTIONS
3. **SPOUSE CONTRIBUTION**; THE CONTRIBUTOR RECEIVES A SPOUSE CONTRIBUTION OFFSET.

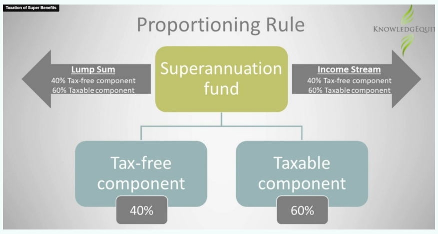
m4.5 Tax on Super Benefit - Condition of Release



m4.5 Tax on Super Benefit - Consequence of Release



m4.5 Tax on Super Benefit - Components

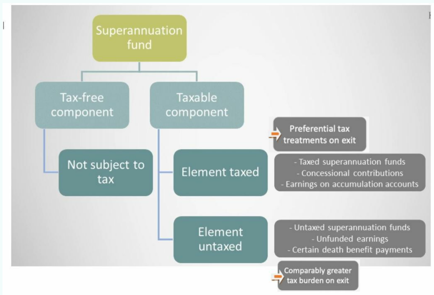


SUPERANNUATION FUND COMPONENT

1. **TAX-FREE Component**
- Non Concessional Contributions
- Cyrstallised segment (pre-July 2007 components)
- Tax free on Exit.

2. **TAXABLE Component** the remaining balance and includes:
- Concessional Contributions
- Earnings of Superannuation fund
- Consist of 2 Elements - (1) taxed & (2) untaxed

m4.5 Tax on Super Benefit - Component



m4.5 Tax Table - Super - General

Lump sum	Standard		
	Member ≥ 60	Member at preservation age BUT < 60	Member < preservation age
Element taxed	Tax-free	≤ $230,000 tax-free > $230,000 capped at 15% + 2% Medicare levy	Capped at 20% + 2% Medicare levy
Element untaxed	≤ $1,650,000 capped at 15% + 2% Medicare levy > $1,650,000 taxed at 45% + 2% Medicare levy	≤ $230,000 capped at 15% + 2% Medicare levy > $230,000 but ≤ $1,650,000 capped at 30% + 2% Medicare levy > $1,650,000 taxed at 45% + 2% Medicare levy	≤ $1,650,000 capped at 30% + 2% Medicare levy > $1,650,000 taxed at 45% + 2% Medicare levy

Income stream	Standard		
	Member ≥ 60	Member at preservation age BUT < 60	Member < preservation age
Element taxed	Tax-free	Marginal rates less 15% offset	Marginal rates
Element untaxed	Marginal rates less 10% offset	Marginal rates	Marginal rates

m4.5 Tax on Super - Death

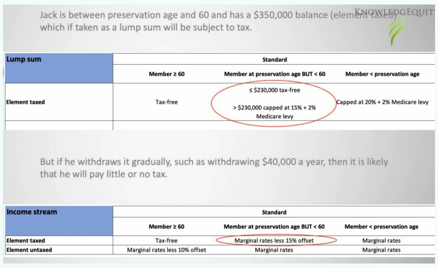
Lump sum	Death benefits	
	Recipient is a death benefit dependant	Recipient is not a death benefit dependant
Element taxed	Tax-free	Capped at 15% + 2% Medicare levy
Element untaxed	Tax-free	Capped at 30% + 2% Medicary levy

Income stream	Death benefits	
	Deceased ≥ 60 OR Beneficiary ≥ 60	Deceased < 60 AND Beneficiary < 60
Element taxed	Tax-free	Marginal rates less 15% offset
Element untaxed	Marginal rates less 10% offset	Marginal rates

Death benefit dependant

- Member's child if under 18
- Member's spouse (including de facto) or former spouse
- Person in interdependency relationship with member
- Financial dependant under common law

m4.5 Super Exit - LumpSum v Income Stream



Jack is between preservation age and 60 and has a $350,000 balance (element taxed) which if taken as a lump sum will be subject to tax.

Lump sum	Standard		
	Member ≥ 60	Member at preservation age BUT < 60	Member < preservation age
Element taxed	Tax-free	≤ $230,000 tax-free > $230,000 capped at 15% + 2% Medicare levy	Capped at 20% + 2% Medicare levy

But if he withdraws it gradually, such as withdrawing $40,000 a year, then it is likely that he will pay little or no tax.

Income stream	Standard		
	Member ≥ 60	Member at preservation age BUT < 60	Member < preservation age
Element taxed	Tax-free	Marginal rates less 15% offset	Marginal rates
Element untaxed	Marginal rates less 10% offset	Marginal rates	Marginal rates

Taxation Benefits Depends on the Range of Factors:

1. TYPE OF BENEFITS BEING PAID
2. THE AGE OF THE MEMBER (e.g. at or below preservation, 60 or 65)
3. THE WORKING STATUS OF THE MEMBER (e.g. retired, working or intending to work)
4. FOR DEATH BENEFITS & STATUS OF THE BENEFICIARY (e.g. age, death benefit dependant)
5. THE TAX STATUS OF THE FUND, ITS CONTRIBUTIONS AND ITS EARNINGS (e.g. taxed, untaxed, concessional or unconcessional contributions)

m4.7 Tax Offset and Rebates - CATEGORY

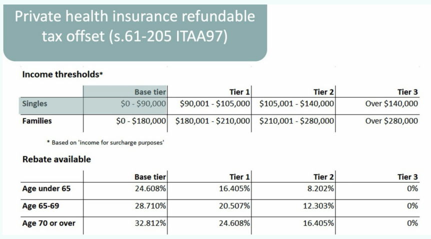
TWO BROAD CATEGORIES OF TAX OFFSET	Sample:	Rule:
(1) **NON-REFUNDABLE TAX OFFSETS**	-Senior Au and Pensioners Tax Offset (SAPTO)	-Cannot be offset against levies and surcharges

m4.7 Tax Offset and Rebates - CATEGORY (cont)

	-Dependant Invalid and Carer Tax Offset (DICTO)	-Don't get paid out if exceed the IND's income tax liability
		-Don't get carried forward to a future year
(2) **REFUNDABLE TAX OFFSET**	-Private Health Insurance Tax Offset	-**Refundable** to the IND if they exceed the income tax liability
	-Franking Credit Tax Offset	

Tax Offset and Rebates directly reduce income tax payable.
Applied for Range of Reasons:
1. Wealth Redistribution
2. Prevent Double Taxation
3. Encouraging Govenment Policy

m4.7 Tax Offset - Private Health Insurance



Private health insurance refundable tax offset (s.61-205 ITAA97)

Income thresholds*

	Base tier	Tier 1	Tier 2	Tier 3
Singles	$0 - $90,000	$90,001 - $105,000	$105,001 - $140,000	Over $140,000
Families	$0 - $180,000	$180,001 - $210,000	$210,001 - $280,000	Over $280,000

* Based on 'income for surcharge purposes'

Rebate available

	Base tier	Tier 1	Tier 2	Tier 3
Age under 65	24.608%	16.405%	8.202%	0%
Age 65-69	28.710%	20.507%	12.303%	0%
Age 70 or over	32.812%	24.608%	16.405%	0%

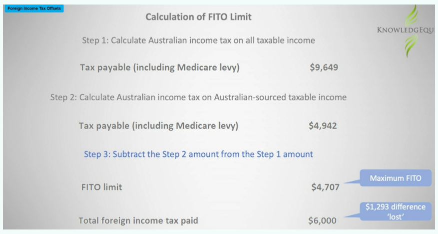
m4.7 Tax Offset - Low Income Tax Offset

(s159N ITAA36)

Maximum of $700, less 5cents for each $1 over $37,500.00

m4.7 FITO - Div 770

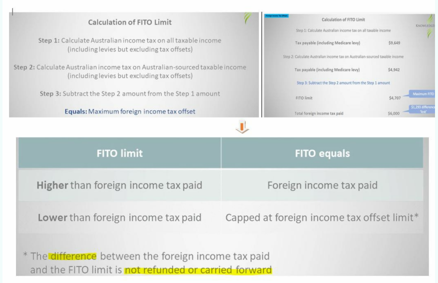
m4.7 Foreign Income Tax Offset - FITO Limit Calc



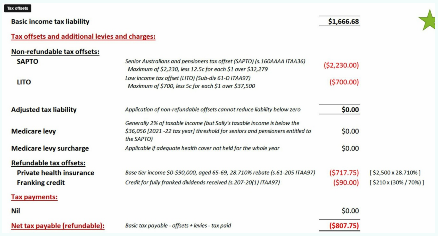
FOR FOREIGN INCOME TAX PAID IS OVER OR >$1,000, SUBJECT TO AN OFFSET LIMIT

m4.7 FITO - Sample

m4.7 FITO Limit Calc



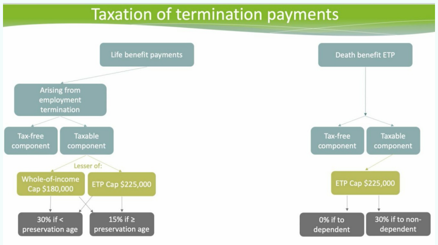
m4.8 Calculating Tax Payable/Refund



Non-Refundable Tax Offsets can only be applied against the current year basic income tax and cannot exceed the amount of income tax payable.

Refundable Tax Offsets can exceed the tax payable and lead to an amount payable to the IND taxpayer.

m4.3 Taxation -Termination Payment



Life Benefit Payment & Death Benefit ETP