

m4.1 Who to lodge Return? - Exceptions

Possible 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!!!

Possibly 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%.

$$\text{INCOME TAX} = [\text{TAXABLE INCOME} \times \text{TAX RATE}] - \text{TAX OFFSET}$$

m4.1 Tax Flow & Calculation Steps

| | |
|--|---|
| Taxable income | • Assessable income less deductions, s.4-15(1) ITAA97 |
| Gross tax payable | • <i>Income Tax Rates Act 1986, Schedule 12</i> |
| Less non-refundable tax offsets | • E.g. Dependant Invald 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

| Assessable income for fringe benefits income | | | |
|---|--|--------------------|--------------------------------------|
| Salary | Assessable income (s.6-9 ITAA97) | \$85,000.00 | |
| Dividends | Assessable income (s.46(1)(a) ITAA97) | \$4,300.00 | |
| Gross-up for franking credit | Dividend x (100 / (100 - FR)) (s.207(2)(c) ITAA97) | \$1,843.00 | (\$4,300 x 100% / 70%) |
| Net capital gain | Assessable income (s.100-101 ITAA97) | \$3,000.00 | |
| Assessable income | Sum of ordinary and statutory income (Division 6 ITAA97) | <u>\$94,143.00</u> | |
| Less deductions | Sum of general and specific deductions (Division 8 ITAA97) | (\$4,100.00) | |
| Taxable income | Assessable income less deductions (s.4-23 ITAA97) | <u>\$90,043.00</u> | |
| Basic income tax liability: | | | |
| Tax rates for 2022-23 | Base tax (for taxable income between \$45,000 - \$220,000) (s.10(1) - (1)(b) for each \$1 over \$45,000) | \$5,092.00 | |
| | | \$16,628.98 | (\$19,721 - \$45,000) x 12.5% |
| Basic income tax liability | | <u>\$19,720.98</u> | |
| Tax offsets and additional charges and levies: | | | |
| Non-refundable tax offsets | Dependant Invald and Carer Tax Offset (DICTO) (s.41-43 ITAA97) | (\$1,638.00) | (\$1,640 - 0.2% x (\$2,300 - \$200)) |
| | Dependants (s.2(4) - (2)(b) x dependants at 10 - 20%) | \$1,800.86 | (\$1,801 x 2%) |
| Medicare Levy | 2% of taxable income | \$1,800.86 | |
| Refundable tax offsets | Credit for fully franked dividends received | (\$1,843.00) | (\$4,300 x 100% / 70%) |
| Tax payments: | | | |
| PAYGW | Tax withheld from salary | (\$18,345.00) | |
| Net tax payable (if refundable): | gross tax payable - offset charges - tax paid | <u>(\$29,111)</u> | |

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, insurance 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

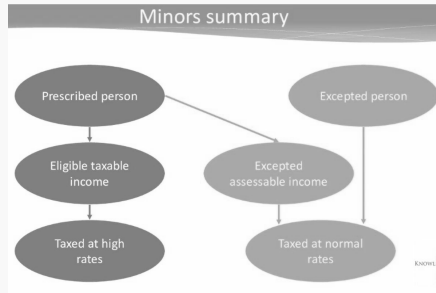
-if BEneficiary to declare entitlement to trust income **(even if not actually paid)**



m4.2 Assessable Income (cont)

8. -Payments Received for the Use of Rights (copyright, Royalties 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

Minors

Prescribed person:

- Less than 18 years at 30 June
- Not an 'excepted person'

Special (higher) tax rates apply unless:

- **Excepted person**
 - E.g. in full time occupation on 30 June
 - E.g. disabled & eligible for disability support pension
- **Excepted assessable income**
 - E.g. wages for personal exertion
 - E.g. excepted trust income such as a deceased estate



**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 |



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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 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.

m4.2 MINOR - Categories of Assessable Income

| Categories of excepted assessable income s.102AE(2): |
|---|
| Employment or business income |
| From investment of any property transferred to the minor as a result of legal claims for workers compensation, criminal injuries, loss of parental support and/or personal injury |
| From investment of property derived by the minor from a deceased estate |
| From investment of property transferred to a minor from a public fund, as a result of marriage breakdown or out of a lottery win |
| Non-business partnership income included under section 92 |
| Trust income assessable under section 97 or 100 |
| Derived from investment of property accumulated as excepted assessable income, prior |

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



m4.2 MINOR - ETI Tax Rates

| Eligible taxable income | |
|--------------------------------------|----------------------------|
| Tax on eligible taxable income (ETI) | |
| • No low income tax offset for ETI | |
| ETI | Tax |
| ≤ \$416 | 0% (Marginal rate) |
| \$417 - \$1,307 | 66% of excess above \$416* |
| > \$1,307 | 45% of total ETI |

* Stands in tax rate is subject to an additional calculation, with the minimum being 66%

\$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

| Tax on Taxable Income: | | |
|---|--|----------|
| Eligible taxable income | $(\$8,000 - \$500) = \$7,500$; Tax rate = 45% | \$3,375 |
| Exempted taxable income | $(\$7,000 - \$146) = \$6,854$; Under tax-free threshold | \$0 |
| Tax liability | | \$3,375 |
| Less Tax paid by trustee on Sarah's share of net trust income | | -\$3,375 |
| Tax payable | | \$0 |

m4.3 Employment Termination Pmt - ETP Overview

Employment termination

Payments in consequence of termination of employment

- E.g. golden handshake, redundancy payout, early retirement scheme

Any concession depends upon whether the payment is an Employment Termination Payment (ETP) or other amount.

ETPs exclude:

- Superannuation benefits, pensions & annuities
- Unused annual and long service leave
- Tax-free component of genuine redundancy or early retirement schemes

SPECIAL TYPE OF INCOME

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m4.3 Preservation Age

| Preservation age | |
|-------------------|------------------|
| Date of birth | Preservation age |
| Prior to 01.07.60 | 55 |
| 01.07.60–30.06.61 | 56 |
| 01.07.61–30.06.62 | 57 |
| 01.07.62–30.06.63 | 58 |
| 01.07.63–30.06.64 | 59 |
| After 30.06.64 | 60 |

Example 1:
Born 23 May 1963
Preservation age is 58
Age as at 30 June 2022 is 59
Therefore, has met preservation age in FY22

Example 2:
Born 21 August 1964
Preservation age is 60
Age as at 30 June 2022 is 57
Therefore, has **not** met preservation age in FY22

m4.3 Life Benefit ETP Component

Life benefit ETP components

- Tax-free component
- Invalidity segment
= ETP amount × $\frac{\text{Days to retirement}}{\text{Employment days} + \text{Days to retirement}}$
- Pre-July 1983 segment
= (ETP amount - Invalidity segment) × $\frac{\text{Number of pre-July 1983 service days}}{\text{Total employment service days}}$
- Taxable component
- Balance of the ETP

Non-assessable Non-exempt income

M4.3 Employment Termination Payments (ETPs)

- Life Benefit Termination Payments
 - LBTF - **Tax Free** (Invalidity Segment or Any pre-July 1983 Segment)
 - 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)

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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

| Employment Termination Payment (ETP): | |
|---|--|
| Life benefit payment | |
| Not an included payment (e.g. genuine redundancy or early retirement scheme), or whole-of-income cap is relevant | |
| Tax-free component (incapability & pre-July 1983 payments (11.111%)) | \$63,326.00 [(1,826 / 16,436) × \$500,000] |
| 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 - \$400 other income) - the lower is \$175,200, as up to this is taxed at 15% | \$26,280.00 [(175,200 × 15%)] |
| Balance over applicable cap taxed at 45%* | \$149,163.30 [(\$506,674 - \$175,200) × 45%] |
| * Plus Medicare levy | \$185,576.78 |

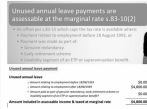


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m4.2 Unused Annual Leave



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 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 cap of \$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 (ETRM)) is taxed at the top marginal rate 45% (plus levies).

Taxable income is \$260,000

Gross tax payable $\$51,667 + 45\% \times \$80,000 = \$87,667$

Tax payable on salary of \$80,000 $\$5,092 + 32.5\% \times \$35,000 = \$16,467$

Add: Tax payable on ETP in excess of the whole-of-income cap $\$80,000 \times 45\% = \$36,000$

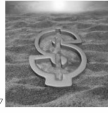
Total tax payable on taxable income excluding concessional tax ETP of \$100,000 is $\$51,667$

Add: Tax payable on \$100,000 at concessional rate $\$100,000 \times 15\% = \$15,000$

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 Step 2: Is PSB Being Conducted?

PSI rules only apply where the individual earns the PSI via a Personal Services Entity (PSE); and neither the individual nor the PSE is conducting a Personal Services Business (PSB)

A personal services business determination from the Commissioner of Taxation exists; or

The results test is satisfied (s.87-18); or

If <80% of the PSI is derived from a single source and one of the three other tests are satisfied:

- The unrelated clients test (s. 87-20)
- The employment test (s. 87-25)
- The business premises test (s. 87-30)

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

RALPH - PPSB SAMPLE SCENARIO

Results test:

In relation to >75% of the PSI...

- Income is for producing a result
- Individual is required to provide PPE or tools of the trade needed to perform the work that produces the result
- Individual is liable for the cost of rectifying any defects

Results test:

In relation to >75% of the PSI...

- Income is for producing a result
- Individual is required to provide PPE or tools of the trade needed to perform the work that produces the result
- Individual is liable for the cost of rectifying any defects

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



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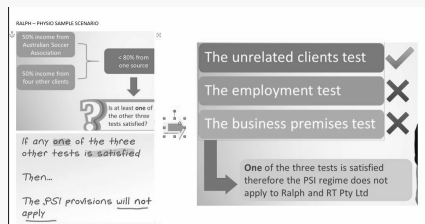
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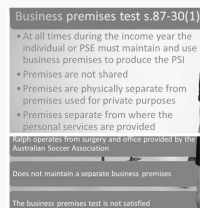
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m4.3 PSB - <80% Single Sourced - Other Tests



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



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

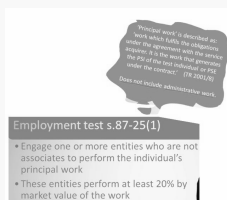
Unrelated clients test s.87-20(1)

- Income produced by providing services to two or more entities
- Entities are not associates of each other
- Services provided as a direct result of making offers to the public
- Registering with a labour hire firm does not satisfy this test s.87-20(2)

Say,

- * there are 5 different entity clients
- * **Unrelated clients test is satisfied**
- * **PSI provision WILL NOT APPLY**

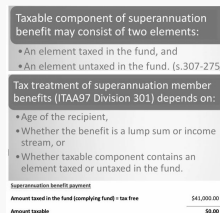
m4.3 PSB - Employment Test s.87-25(1)



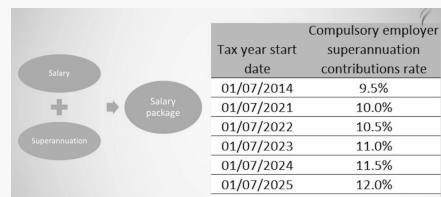
Ralph is the sole employee of RT P/L

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

m4.2 Superannuation Benefit Payment



M4.5 Superannuation



Two Primary Regulators of 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

Complying fund

- Notice of compliance from APRA/ATO (s.45 SISA)
- Must have a trustee and be a 'regulated fund' (s.19 SISA)
- Meet relevant Australian residency requirements
- Trustee not in breach of regulatory provisions and related tests (s.42 and s.42A SISA)

Defined benefit fund

- Member's interest based on a formula
- References salary level, length of membership, age
- Common in public sector roles
- Benefits can be unfunded (sourced from government revenues) or funded (sourced from fund's assets)

Accumulation fund

- Non-defined benefit funds
- Representative of most superannuation funds
- Benefits equate to value of investments in the fund

Taxed funds

- Most superannuation funds

Untaxed funds

- Constitutionally protected fund ('CPF')
- Some state government superannuation schemes
- Members of the judiciary superannuation schemes

Compliance

- ▶ Complying vs Non-complying

Interest

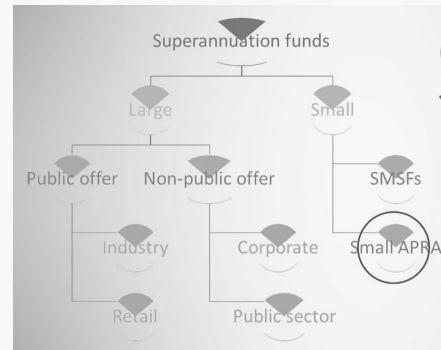
- ▶ Define Benefit vs Accumulation

Taxation

- ▶ Taxed vs Untaxed

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

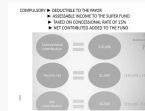
m4.5 Superannuation Funds



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 cap:
 2017-18: \$25,000 cap per taxpayer
 2020-21: If super balance < \$500,000, any unused cap portions can be carried forward for up to 5 years
 2021-22: \$27,500 cap per taxpayer

Concessional contributions cap penalties:
 1. Taxed at marginal rates, less a credit for the concessional contributions tax paid by the super fund
 2. Excess concessional contributions (ECC) charge

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

LISTO eligibility:

- Adjusted taxable income ≤ \$37,000
- Income from employment/business ≥ 10%

LISTO benefit:

- Offset of 15% of taxpayer's concessional contributions
- Up to a maximum of \$500

Low Income Superannuation Tax Offet

m4.5 CONCESSIONAL CONTI ADJMNT- Division 293

Division 293 conditions:

- Sum of (i) and (ii) > \$250,000:
 - (i) 'Low tax contributions' (i.e. concessional contributions up to the ECC cap)
 - (ii) 'Income for surcharge purposes' (i.e. sum of taxable income, reportable fringe benefits and total net investment losses)

Division 293 surcharge:

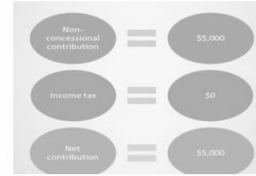
- Additional 15% tax on 'taxable contributions' (total of 30% on that amount)
- 'Taxable contributions' is the lesser of (i) and (ii)
 - (i) Excess of aggregated amount over \$250,000
 - (ii) 'Low tax contributions'

Adjustment for High Income Earner

m4.5 Tax on Super - NON CONCESSIONAL - TAXPAYER

NON-CONCESSIONAL

- ▶ NOT DEDUCTIBLE TO THE PAYER
 - ▶ NOT ASSESSABLE TO THE SUPER FUND
 - ▶ GENERALLY PAID BY TAXPAYER FROM AFTER TAX FUND
 - ▶ AND ONCE THEIR ANNUAL CONCESSIONAL CONTRIBUTIONAL CAP IS REACHED = \$110,000.00
- SUBJECT TO PROVISIONS



Bring-forward provisions:

- Taxpayers < 65 years at any time in the tax year
- Up to \$330,000 in non-concessional contributions in that year (i.e. 3 years of the annual cap)
- Corresponding reduction in non-concessional contributions cap in the next 2 years

Non-concessional contributions > Cap

- Penalty tax of 47% on the excess; or
- Release those contributions and their earnings, and effectively have the earnings taxed at the marginal rate

NON-CONCESSIONAL CONTRIBUTORS

- TAXPAYER CONTRIBUTIONS FROM AFTER TAX FUND
- GOVERNMENT CO-CONTRIBUTIONS
- SPOUSE CONTRIBUTION

m4.5 Super Balance Cap



CONCESSIONAL CONTRIBUTIONS CAP

NON-CONCESSIONAL CONTRIBUTIONS CAP

m4.5 Tax on Super - NON CONCESSIONAL - GCC

2. Government co-contributions

Co-contributions eligibility:

- Eligible personal superannuation contributions made during the year
- Aged < 71 at end of tax year
- Income from employment/business ≥ 10%
- Annual income for co-contributions ≤ \$42,016 (2022-23), \$43,445 (2023-24) (i.e. assessable income, reportable fringe benefits, reportable employer super contributions)

Co-contributions benefit:

- \$500 maximum entitlement
- Tapering by 3.33 cents per dollar over income threshold

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

3. Spouse contributions

Spouse contribution offset eligibility:

- Recipient spouse's non-concessional cap has not been exceeded
- Recipient spouse's superannuation balance cap has not been exceeded
- Recipient spouse's adjusted income ≤ \$37,000 (i.e. assessable income, reportable fringe benefits, reportable employer super contributions)

Spouse contribution offset benefit:

- \$540 maximum offset, based on 18% of contributions, up to an annual limit of \$3,000
- Tapering by \$1 for every \$1 over income threshold

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

Conditions of Release

Retirement

Reaching age 65

Attaining preservation age

Death

Terminal medical condition

Permanent and temporary incapacity

Former temporary resident

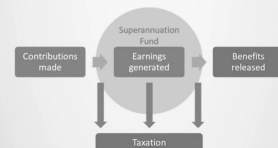
Severe financial hardship

Compassionate grounds

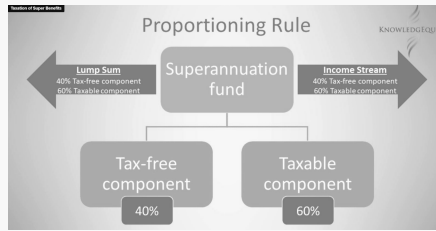
m4.5 Tax on Super Benefit - Consequence of Release

Factors affecting taxation of benefits

- Type of benefit being paid
- Age of member
- Taxed or untaxed fund
- Taxable and tax-free components
- Taxed and untaxed elements within the taxable component



m4.5 Tax on Super Benefit - Components



SUPERANNUATION FUND COMPONENT

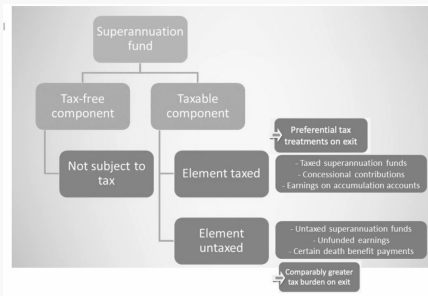
1. TAX-FREE Component

- Non Concessional Contributions
- Crystallised 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% Medicare 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



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m4.5 Super Exit - LumpSum v Income Stream

Jack is between preservation age and 60 and has a \$350,000 balance (element untaxed) 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 | \$ 200,000 tax free > \$200,000 capped at 10% + 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 Government 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% |



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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

| Calculation of FITO Limit | |
|--|---------|
| Step 1: Calculate Australian income tax on all taxable income | |
| Tax payable (including Medicare levy) | \$9,649 |
| Step 2: Calculate Australian income tax on Australian-sourced taxable income | |
| Tax payable (including Medicare levy) | \$4,942 |
| Step 3: Subtract the Step 2 amount from the Step 1 amount | |
| FITO limit | \$4,707 |
| Total foreign income tax paid | \$6,000 |

Annotations: Maximum FITO is \$4,707. \$1,293 difference "lost".

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

m4.7 FITO - Sample

| Income | |
|--|------------------|
| Employment income from Australia | \$44,000 |
| Employment income from United States | \$12,000 |
| Rental income from United Kingdom | \$5,000 |
| Total income | \$61,000 |
| Expenses | |
| Employment expenses—Australian income | (\$4,000) |
| Employment expenses—United States income | (\$900) |
| Rental expenses—United Kingdom income | (\$500) |
| Total expenses | (\$5,400) |
| Foreign income tax paid | |
| Employment income from United States | \$4,000 |
| Rental income from United Kingdom | \$2,000 |
| Total foreign income tax paid | \$6,000 |

Annotation: Foreign income tax offset (FITO)?

m4.7 FITO Limit Calc

| Calculation of FITO Limit | |
|---|----------------|
| Step 1: Calculate Australian income tax on all taxable income (including levies but excluding tax offsets) | |
| Tax payable (including Medicare levy) | \$9,649 |
| Step 2: Calculate Australian income tax on Australian-sourced taxable income (including levies but excluding tax offsets) | |
| Tax payable (including Medicare levy) | \$4,942 |
| Step 3: Subtract the Step 2 amount from the Step 1 amount | |
| Equals: Maximum foreign income tax offset | \$4,707 |

| FITO limit | FITO equals |
|-------------------------------------|--|
| Higher than foreign income tax paid | Foreign income tax paid |
| Lower than foreign income tax paid | Capped at foreign income tax offset limit* |

* The difference between the foreign income tax paid and the FITO limit is **not refunded or carried forward**

m4.8 Calculating Tax Payable/Refund

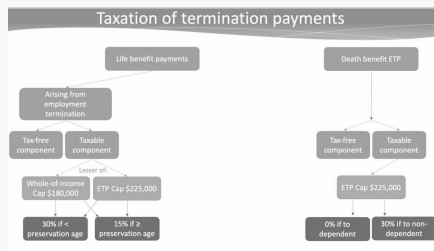
| | | |
|---|---|--------------------------------|
| Basic income tax liability | | \$1,666.68 |
| Tax offsets and additional levies and charges: | | |
| Non-refundable tax offsets: | | |
| SAPTO | Senior Australians and pensioners tax offset (SAPTO) (s.156AAA ITAA36) | (\$2,350.00) |
| | Maximum of \$2,350, less 1.5% for each \$1 over \$12,279 | |
| LITO | Low income tax offset (LITO) (s.49 (4) ITAA36) | (\$700.00) |
| | Maximum of \$700, less 5% for each \$1 over \$37,500 | |
| Adjusted tax liability | Application of non-refundable offsets cannot reduce liability below zero | \$0.00 |
| | Generally 2% of taxable income (but 5% if taxable income is below the \$16,000 (2021-22 tax year) threshold for seniors and pensioners entitled to the SAPTO) | |
| Medicare levy | Generally 2% of taxable income (but 5% if taxable income is below the \$16,000 (2021-22 tax year) threshold for seniors and pensioners entitled to the SAPTO) | \$0.00 |
| Medicare levy surcharge | Applicable if adequate health cover not held for the whole year | \$0.00 |
| Refundable tax offsets: | | |
| Private health insurance | None for income \$5,500,000, equal 65.4% 28.710% rebate (s.61.001 ITAA97) | (\$717.75) (\$2,500 x 28.710%) |
| Franking credit | Credit for fully franked dividends received (s.207-202(1) ITAA97) | (\$90.00) (\$300 x 30%/70%) |
| Tax payments: | | |
| Nil | | \$0.00 |
| Net tax payable (refundable) | Basic tax payable - offsets + levies - tax paid | (\$407.75) |

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

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