

Your Tax Activity 4

Years 7-12

# CALCULATING TAX DUE

## Fact sheet

As part of your tax return you may be due a refund or have a tax debt. Find out more about calculating tax using some case studies.

Many people like to do their own tax calculation to get an idea of whether they are due a refund or have a tax debt.

If you lodge via myTax, you will be given an estimate of your refund or tax due before you lodge your return.

Study the case study about Ali. Then look at the tax equation template in the section below called Income tax estimator to see how Ali's income tax is calculated.

**Case study: Ali**

Ali works full-time as a baker for Nicky's Breads. His employer gives him a uniform, but Ali must keep it laundered.

He studies at night at the local TAFE to improve his skills so he can get a promotion to a store manager position, and keep up to date with the latest baking techniques. He has private health insurance with a complying fund. Ali has looked at his bank records and other documents so he can prepare his tax return.

### INCOME TAX ESTIMATOR

Ali could use the income tax estimator on the ATO website to calculate his tax position. Using the calculator would give Ali an estimate of his tax refund or debt.

Tax equation template	Ali's tax calculation (\$)
Assessable income	39,100
minus	
Allowable deductions	2,800
equals	
Taxable income	36,300
Use tax rates 2016-17	19c for each \$1 over \$18,200
Tax on taxable income	3,439
minus	
Tax offsets	350
equals	
Net tax payable	3,089
plus Medicare levy	2% of taxable income
Medicare levy	726
equals	
Total amount payable	3,815
minus	
Tax credits	5,100
equals	
Refund or amount owing	Refund due: 1,285

You can see from this table, that Ali's tax changed because of offsets and the Medicare levy.

**Tax equation****Step 1**

Assessable income – allowable deductions  
= taxable income

**Step 2**

Calculate tax on taxable income  
(using tax rate table)

**Step 3**

Tax on taxable income – tax offsets  
= Net tax payable

**Step 4**

Net tax payable + Medicare levy + Medicare  
surcharge = Total tax payable

**Step 5**

Total amount of tax payable – tax credits  
= Refund or amount owing

**TAX OFFSETS**

Tax offsets (sometimes referred to as rebates) directly reduce the amount of tax payable on your taxable income. There are several tax offsets including offsets for:

- ▶ health insurance
- ▶ low income earners (The maximum tax offset of \$445 applies if your taxable income is \$37,000 or less. This amount is reduced by 1.5 cents for each dollar over \$37,000)
- ▶ zones and overseas forces.

**TAX LEVIES AND SURCHARGES****Medicare levy**

Medicare gives Australian residents access to health care. It is partly funded by taxpayers who pay a Medicare levy of 2% of their taxable income.

Your Medicare levy is reduced if your taxable income is below a certain threshold. In some cases you may not have to pay the levy at all.

In 2015–16 you do not have to pay the Medicare levy if your taxable income is equal to or less than \$21,335 (\$33,738 for seniors and pensioners).

**Medicare Surcharge**

- ▶ The Medicare levy surcharge (MLS) is levied on Australian taxpayers who do not have an appropriate level of private hospital insurance and who earn above a certain income.
- ▶ The base income threshold (under which you are not liable to pay the MLS) is \$90,000 for singles and \$180,000 for families.

Sometimes your calculation may not be exactly the same as the ATO's calculation. The ATO will send a notice of assessment with their exact calculation of **tax payable** or a **refund due**.

**Other levies**

From time to time, the government imposes short-term levies to pay for extraordinary expenses. An example is the flood levy (also known as the Temporary Flood and Cyclone Reconstruction Levy) that was designed to help fund the rebuilding of essential infrastructure damaged by natural disasters that occurred in Queensland in late 2010 and early 2011. This included roads, bridges, and schools. The flood levy applied to 2011–12 income year and was paid by most taxpayers.

Another example is the Temporary budget repair levy of 2% that was imposed on that part of a person's income which exceeds \$180,000. The budget repair levy was imposed from 1 July 2015 to 30 June 2017.

## Your Tax Activity 4: Calculating tax due

Years 7-10

# TASK 1

# WHAT IS MY TAXABLE INCOME?

## Worksheet

### YOU WILL:

- ▶ use real-life scenarios to decide what is assessable income and allowable deductions
- ▶ provide an explanation of what is not assessable income and allowable deductions
- ▶ calculate taxable income in a range of real-life situations

### YOU WILL NEED:

- ▶ *Fact sheet: Calculating tax due*
- ▶ *Answer Sheet: Task 1 - What is my taxable income?*

1. Read the *Fact sheet: Calculating tax due* and the information in the text box below.

#### Some other facts: Allowable deductions must be related to earning an income

There are a number of allowable deductions that taxpayers can claim when they complete their tax returns. The principle test is whether the expenses relate to earning an income. For example, interest is income, an investment property that pays money in rent is income. Costs associated with earning this income can be deducted, such as interest on a property that earns rental income. Self-education expenses are also deductible when the course you undertake leads to a formal qualification, has a sufficient connection to your current employment and:

- ▶ maintains or improves the specific skills or knowledge you require in your current employment, or
- ▶ results in, or is likely to result in, an increase in your income from your current employment.

You cannot claim a deduction for self-education expenses for a course that does not have a sufficient connection to your current employment even though it:

- ▶ might be generally related to it, or
- ▶ enables you to get new employment.

2. Read the scenario below and answer the questions that follow.

#### Scenario

You are a registered tax agent who completes tax returns for a number of clients. Three of your clients have presented you with their financial information. They are not sure what information is relevant.

### APPLY YOUR UNDERSTANDING

3. For Matt, Camilo and Susie, **decide** which information is relevant for the purpose of completing a tax return. To do this, you must decide for each client, what on their list is:
  - ▶ assessable income
  - ▶ allowable deductions
4. You are asked to **explain** to each client why you have not included income or deductions they listed.

**Matt**

Matt is 17 years old. While he is at school, he works part-time with a building supplies company on weekends and during vacations. He has provided you with the following list of income and expenses. You must decide whether what Matt has listed is assessable income and whether or not his expenses are allowable deductions. Provide an explanation of your decision in the column provided.

Money received during the year	Amount (\$)	Income or allowable deduction (place a tick or cross next to the amount)	Explanation (explain why those with crosses are either not assessable income or allowable deductions)
Wages	11,700		
Bank interest	60		
Payments during the year			
Accountant's fee for preparation of tax return	70		
Travel to and from work	390		
Donations to an approved charity	30		

Now that you have decided what items are assessable income and what items are allowable deductions, use an excel spreadsheet (or calculator) to **calculate** Matt's taxable income. An example, with formulas is provided below:

	Income and expenses	Amount (\$)
<b>1</b>	Assessable income	
<b>2</b>	Wages from job 1	3000
<b>3</b>	Wages from job 2	1500
<b>4</b>	Interest earned	30
<b>5</b>	Total Assessable income	=SUM(A2:A4)
<b>6</b>	Allowable deductions	
<b>7</b>	Accountants Fees	80
<b>8</b>	Donations to approved charity	100
<b>9</b>	Approved education course	450
<b>10</b>	Union fees	200
<b>11</b>	Total allowable deductions	=SUM(A7:A10)
<b>12</b>	Taxable income	=A5-A11

Note that the formula will change depending on the number of entries you have. In assessable income, A2 shows the first item and the A4 shows the last. In allowable deductions, A7 shows the first and A10 shows the last.

Taxable income =  
assessable income -  
allowable deductions  
(ie A5-A11)

**Camilo**

Camilo is a very talented Spanish-style singer who sings regularly at a restaurant and at private functions. He is single, aged 25 and an Australian resident for tax purposes. Camilo plays soccer for a local amateur club. He owns two properties, the house he lives in and a town house which he rents out.

Money received during the year	Amount (\$)	Income or allowable deduction (place a tick or cross next to the amount)	Explanation (explain why those with crosses are either not assessable income or allowable deductions)
Best player of the month award (gift voucher)	100		
Singing fees	75,000		
Bank interest	190		
Rent from town house	19,840		
<b>Payments during the year</b>			
Singing lessons	3,500		
Football gear	800		
Donations to an approved charity	300		
Town house expenses (rates, agent and repairs)	3,100		
Interest on mortgage for town house	13,800		
Interest on mortgage of the house he lives in	12,100		
Costume cleaning costs	1,100		
Car expenses to and from work	3,800		
Accountant's fee for preparation of tax return	200		
Vacation expenses	7,000		

Now use an excel spreadsheet (or calculator) to **calculate** Camilo's taxable income (use the example on how to use excel spreadsheet above).

**You can only claim expenses that are directly related to earning your assessable income.**

**Susie**

Susie is a journalist who works for a large daily newspaper. She is married, aged 32 and is an Australian resident for tax purposes. Susie has term deposits with various banks.

Money received during the year	Amount (\$)	Income or allowable deduction (place a tick or cross next to the amount)	Explanation (explain why those with crosses are either not assessable income or allowable deductions)
Inheritance from grandparent's estate	105,000		
Salary	65,000		
Term deposit interest	21,000		
Lottery winnings	1,000		
<b>Payments during the year</b>			
Accountant's fee for preparation of tax return	180		
Subscriptions to investment magazines	200		
Donations to approved charity	610		
Train travel expenses to work each day	1,100		
Union fees to Association of Journalists	1,000		
Depreciation of computer equipment (used for work)	480		
Cost of TAFE course on furniture restoration	520		
Mobile phone used for work	800		

Now use an excel spreadsheet (or calculator) to **calculate** Camilo's taxable income (use the example on how to use excel spreadsheet above).

Check your answers using the answer sheet.

You cannot claim the following as allowable deductions:

- ▶ private or domestic expenses, such as childcare fees or clothes for your family
- ▶ expenses relating to income that is not taxable, such as money you earn from a hobby
- ▶ expenses that are specifically non-deductible, such as entertainment and parking fines.



## Your Tax Activity 4: Calculating tax due

Years 7-10

# TASK 2

## DO WE GET A REFUND?

### Worksheet

#### YOU WILL:

- ▶ use real-life scenarios to calculate tax due
- ▶ recalculate tax due taking into account tax offsets and levies
- ▶ develop an argument supporting the claim that Tax offsets and levies make the tax system fairer

#### YOU WILL NEED:

- ▶ *Fact sheet: Calculating tax due*
- ▶ *Answer sheet: Task 2 - Do we get a refund?*

### APPLY YOUR KNOWLEDGE

#### Scenario

You are a registered tax agent who completes returns. Two of your clients Julie and Andrew, want to know if they are due a refund or have tax payable. Julie and Andrew have provided you with their taxable income for the year ending 30 June 2016.

1. **Calculate** if Julie and Andrew are due a tax refund or have a tax bill for the 2016-17 income tax year. Use the tax rates table to calculate the tax payable.

**Table 1: 2016-17 Tax rates**

Taxable income	Tax on this income
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

#### An example of how to calculate tax

The total tax payable by a person on an annual income of \$80,000 would be calculated as follows:		
Tax payable on the first \$18,200	=	0
Tax payable on the next \$18,800 = (\$37,000 - \$18,200) multiplied by 0.19	=	\$3,572
Tax payable on the next \$43,000 = (\$80,000 - \$37,000) multiplied by 0.325	=	\$13,975
<b>Total tax payable</b>	<b>=</b>	<b>\$17,547</b>

**Table 2: Step 1 of calculating tax due**

	A	B	C	D	E	
Client	Assessable income (\$)	Work related expenses (\$)	Taxable income (\$)	Tax payable on taxable income (Round to the nearest \$)	Tax credits (\$)	Refund or bill (\$) (E-D)
Julie	35,000	450			7,100	
Andrew	85,000	980			17,200	

(A negative number means you have not paid enough tax so you have a bill)

You can estimate your tax return based on your taxable income (assessable income less allowable deductions). However, your return will depend on whether you are entitled to tax offsets (rebates) and whether you are required to pay levies or surcharges. Both offsets and levies/surcharges will be calculated automatically if you use the Tax Office online lodgment tool myTax.



2. **Read** *Fact sheet: Calculating tax due*, particularly the section on tax offsets, levies and surcharges.

Julie and Andrew are both 29 years old and single. Neither pay health insurance and live in a capital city so are not entitled to zone offsets.

3. Using the information in the fact sheet and above, **calculate** Julie's and Andrew's:

- ▶ offsets (If eligible, low income offset as they are not eligible for any other offset)
- ▶ medicare levy
- ▶ medicare surcharge

**Table 3: Step 2 of calculating tax due**

	A	B	C	D	E	F	G	H	
Client	Taxable income (\$)	Tax on taxable income (\$)	Offset amount (\$)	Net tax payable (\$) (B-C)	Medicare levy (\$)	Medicare surcharge (\$)	Total tax payable (\$) (D+E+F)	Tax credits (\$) (See table 2)	Refund or amount owing (\$) (H-G)
Julie									
Andrew									

## DEVELOP AN EVIDENCE-BASED ARGUMENT

4. Using the PEER method of paragraph writing, **develop an argument** supporting the following statement:

*"Tax offsets and levies help make the tax system fairer".*

<b>Point</b> State your argument	Tax offsets and levies help make the tax system fairer.
<b>Elaboration</b> Explain in more detail what your argument is – for example, what is fair?	
<b>Evidence</b> Provide evidence to support your argument	
<b>Relate</b> Restate your conclusion/ position	