Lesson 6 - Temporary Budget Repair Levy, Medicare Levy and Tax Calculation

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Taxable Income and Rates of Tax

After all allowable deductions have been subtracted from assessable income, the remaining figure is the ***taxable income.*** This is the figure on which the income tax payable and Medicare Levy payable will be calculated. When calculating income tax, 'cents' are included.

The general rates of tax for individuals and non-residents are determined by the ATO and are subject to change each year.

Budget Repair Levy

As part of the 2014-15 Federal budget the Government introduced a Temporary Budget Repair Levy.

Individual taxpayers with a taxable income of more than $180,000 per year will have additional tax withheld by their employer, starting from 1 July 2014.

The levy is payable at a rate of two per cent of each dollar of a taxpayer's taxable income over $180,000.

It will apply to both resident and non-resident individuals from 1 July 2014 and applies to the 2014-15, 2015-16 and 2016-17 income years.

In some cases the levy is payable even if you have a taxable income of $180,000 or less. For example, the unearned income of resident individuals under the age of 18 is subject to special rates and will include additional amount for the levy on income greater than $416.

The tax tables have been updated so that employers can withhold the appropriate amount of tax and levy.

The levy will cease to apply from 1 July 2017.

The Medicare Levy

The Medicare Levy is a compulsory levy that is payable on the taxable incomes of all Australian residents, subject to a few exceptions. Its purpose is to fund the Medicare scheme. The rate of the basic levy is 2.0% of taxable income for the 2013/14 financial year and onwards.

All figures used in this lesson are 2014/15 figures.

The Medicare Levy is determined according to:

- Individuals (not eligible for SATO or pensioner offset)
- Senior Australian Individuals
- Eligible Pensioner Individuals

Medicare Levy reduction for people on low incomes

No levy is payable by individuals whose income is below the lower threshold figure ($20,896), whilst a reduced levy is payable by those whose income falls within the threshold 'shading-in'. Currently, if the individual's taxable income is above $26,1207, then the Medicare levy is 2.0% of the entire taxable income.

Medicare Levy for Couples and Families

A reduction of the basic Medicare Levy can be available to couples and families on low incomes. The Medicare Levy is **reduced** if family income falls between the following limits for 2014/15:

	Lower	Upper Limit Taxable income Equal to or exceeding
Eligible for Seniors and Pensioners Tax Offset (SAPTO)	$33,044	$41,306
Families with no children	$35,261	$44,077
*Families with:		
One child	$38,499	$48,124
Two children	$41,737	$52,172
Three children	$44,975	$56,219
Four children	$48,213	$60,267
Five children	$51,451	$64,314
Six children	$54,689	$68,362
* For each additional child over six children, add $3,238 to the lower limit and add $4,047 to the upper limit		
Families – Spouse/dependent eligible for SAPTO	$46,000	$57,500
All other taxpayers	$20,896	$26,120

Family Income is the combined income of both partners within a de-facto or married relationship. If one member of a couple dies during the year then the remaining taxpayer is still considered to be married. If a taxpayer separates during the year then the family income is that remaining taxpayer's own taxable income after the date of separation. Up until the date of separation, both partners' incomes are included for family.

Dependants for Medicare levy purposes are any of the following:

- A spouse (married or de-facto)
- Your child under 21 years old
- Full-time student less than 25 years age **or** a dependent child with an adjusted taxable income (ATI) of less than $1,786

Dependant Child for medicare levy reduction is any child who was an Australian resident you maintained in 2014–15 and whose adjusted taxable income was less than:

Category of dependent child	ATI if not maintained for the whole year	ATI if maintained for the whole year
Any child under 21 years old you maintained who was **not** a full time student	For the first child: $282 plus $28.92 for each week you maintained them. For each additional child: $282 plus $21.70 for each week you maintained them.	For the first child: $1,786 For each additional child: $1,410
Any full-time student aged under 25 years old at a school, college or university	$282 plus $28.92 for each week you maintained them.	$1,786

If a child or student has been a dependant for only part of the year for the purposes of Medicare, they are counted as a dependant for the whole year.

If a couple are separated, then any child or student is not counted as a dependant of the taxpayer unless the taxpayer received Family Tax Benefit in respect of that child or student. Item M1 will be zero unless the taxpayer receives the Family Tax Benefit.

For Medicare Levy purposes, the amount of the taxed element of a superannuation lump sum that does not exceed the cap of $185,000 for 2014/15, is not included in taxable income if you are aged 55-59 years of age.

Calculating Individual and Family Medicare Levies

Example 1: A taxpayer has a spouse with no income and two dependant children under the age of 21. The taxpayer's taxable income is $38,000.

The taxable income is below the lower threshold of $41,737 ($35,261 + (2 x $3,238). Therefore, no levy is payable.

Example 2: A taxpayer has an income of $22,000. The lower threshold is $20,896. Income over the threshold limit is $22,000 - $20,896 = $1,104

This income over the lower threshold amount (but under the upper threshold amount) is multiplied by 10% to get the reduced Medicare levy payable.

$1,104 x 10% = **$110.40**

Example 3: A couple have incomes of $36,000 and $2000 with no dependants. The medicare levy would be calculated on the Family Taxable Income of $38,000. The amount of the Medicare levy payable on the relevant person's income would be reduced by the amount calculated using the following formula

2% of the relevant family income threshold - (0.08 x **(**the family income - the relevant family income threshold**)**

2% of $35,261 - (0.08 x (38,000 - 35261)

$705.22 - (0.08 x $2,739)

$705.22 - 219.12 = $486.10 (medicare reduction amount)

Medicare payable by individual 1 = (Taxable Income x 2%) - Medicare reduction amount

($36,000 x 2%) - $486.10 = $233.90

Example 4: A taxpayer has an income of $35,000. The spouse has an income of $15,000 and there are 4 dependants. The lower income threshold is $48213 ($35,261 + (4 children x $3238)). The Medicare Levy payable is reduced by the amount calculated in accordance with the following formula::

2% of the relevant family income threshold - (0.08 x **(**the family income - the relevant family income threshold**)**)

2% of $48,213 (Lower threshold 4 Children) - (0.08 x ($50,000 - $48,213)

$964.26 - $142.96 = $821.30 (medicare levy reduction amount)

Medicare payable by individual 1 = (Taxable Income x 2%) - Medicare reduction amount

($35,000 x 2%) - $821.30

$700 - $821.30 = $0 The medicare levy reduction amount is greater than the medicare payable on taxable income therefore the medicare levy payable is zero.

Note: If one of the partners is a low income earner (under the lower individual Medicare threshold) and does not pay the Medicare Levy at all, the entire Total Reduction amount is transferred to the spouse.

If both of the partners' incomes are greater than the individual upper thresholds, ($24,167) then the levy reduction amount is reduced in the same proportion as the amount of the taxable income of the spouse bears to the family income..

Example 5: Jill earns $35,000 and Bob earns $22,000. They have 4 dependant children. The relevant threshold is $48213 ($35,261 + (4 x $3,238). The Medicare levy reduction formula is as follows:

2% of the relevant family income threshold - (0.08 x **(**the family income - the relevant family income threshold**)**)

2% x $48,213 - (0.08 x ($57,000 - $48,213)

$964.26 - $702.96 = $261.30

For Jill the reduction amount is apportioned as follows:

$261.30 x ($35,000/$57,000) = $160.45

Medicare payable by Jill is calculated as follows:

(Taxable Income x 2%) - Medicare Reduction Amount
($35,000 x 2%) - $160.45 = $539.55

Note: If the answer is a negative or nil value dollar figure, it would still be a nil payable and NOT a refund on Medicare levy.

Tutor notes: The ATO has a Medicare Levy calculator. The answer is calculated in a different manner, but the result will be the same.

Exemptions from the Levy - "Prescribed Persons"

You do not have to pay the Medicare levy for the full year if you were in an exemption category for the whole of the income year and:

- you did not have any dependants, or;
- your dependants:
  - Were also all in an exemption category, and/or;
  - All paid the Medicare levy.

Medicare Levy Exemptions (Prescribed Persons)

Category	Type of exemption
1	You are a blind pensioner or you receive the sickness allowance from Centrelink.
2	You are entitled to full free medical treatment for all conditions under Defence Force arrangements or Veterans' Affairs Repatriation Health Card (Gold Card) or repatriation arrangements.
3	You are not an Australian resident for tax purposes.
4	You are a resident of Norfolk Island.
5	You are a member of a diplomatic mission or consular post in Australia – or a member of such a person's family and you are living with them – you are not an Australian citizen and you do not ordinarily live in Australia.
6	You have a Medicare Entitlement Statement from the Department of Human Services showing that you are not entitled to Medicare benefits. A letter from Medicare is not sufficient.

Note: If a person is exempt, they <u>NEED</u> to provide a certificate confirming their exemption.

Where the taxpayer is a 'prescribed person' but at least one of the dependants is not a prescribed person, then the taxpayer is still exempt from the basic Medicare levy as long as the spouse is a levy payer (regardless of the amount of levy payable by that spouse). This applies regardless of whether there are children or not. If the spouse is not a levy payer, then the taxpayer must pay one half of the basic levy which would normally have been charged.

Where both the taxpayer and a spouse are prescribed persons but any dependants are not, then one of them must pay a half basic levy. This can be achieved through a family agreement.

Tutor notes: The taxpayers may choose which one should pay the levy - preferably the lower taxable income taxpayer. The family agreement does not get sent to the ATO but is retained by the taxpayer for a period of 5 years from the date of lodgement of the return.

Where a taxpayer is classed as a prescribed person for only part of the year and is liable for the basic levy for the rest of the financial year, then a pro-rata calculation needs to be made.

The Medicare Levy Surcharge

Individuals and families who do not have appropriate private patient hospital cover through private health insurance may have to pay an additional surcharge called the Medicare levy surcharge.

Unlike the Medicare levy, the surcharge is imposed on taxable income **plus** any reportable fringe benefit amounts **plus** any amount on which family trust tax has been paid. For the 2013-14 financial year, Medicare levy surcharge is income tested with four separate tiers. Only individuals earning more than $90,000 or families earning more than $180,000 will pay any form of Medicare Levy Surcharge if there is no appropriate level of health cover.

The thresholds for the 2014-15 income year are listed in the table below:

	Unchanged	***Tier 1***	***Tier 2***	***Tier 3***
Singles	$90,000 or less	$90,001 - $105,000	$105,001 - $140,000	$140,001 or more
Families	$180,000 or less	$180,001 - $210,000	$210,001 - $280,000	$280,001 or more
Medicare levy surcharge rate	0%	1%	1.25%	1.5%

The family income threshold is increased by $1,500 for every child after the first child.

Income for surcharge purposes will be used to determine if you are liable to pay the Medicare levy surcharge. If you have a spouse, your combined income for surcharge purposes will be used. Income for surcharge purposes is the sum of your:

- taxable income (including the net amount of which family trust distribution tax has been paid)
- exempt foreign employment income (if your taxable income is $1 or more)
- reportable fringe benefits (as reported on your payment summary)
- total net investment losses (includes both net financial investment losses and net rental property losses)
- reportable super contributions (includes reportable employer super contributions [additional to minimum contributions required under an agreement] + personal deductible contributions)

  less

- if you are aged 55-59 years, any taxed element of a super lump sum other than a death benefit which you received that does not exceed your low rate cap.

Adjusted Taxable Income (ATI) for surcharge purposes is only used to determine whether you are liable to pay. It is not used to calculate how much surcharge you pay. Medicare levy surcharge is payable on Taxable Income and Reportable Fringe Benefits.

ATI = Reportable Fringe Benefits (RFB) + Reportable Employee Super Contributions (RESC) + rental and investment property losses

Example 6: A taxpayer has a taxable income of $76,000, fringe benefits of $10,000 and reportable employer super contributions of $30,000. The taxpayer's spouse has a taxable income of $65,000 and reportable super contributions of $10,000. As income for surcharge purposes includes reportable super contributions, the total family income for surcharge purposes is $191,000. Neither taxpayer has private patient hospital insurance cover.

The couple's family threshold is $180,000. Therefore, as their family income exceeds the threshold amount, they are liable to pay the Medicare levy surcharge.

Taxpayer 1 has to pay a surcharge of $860 ($86,000 x 1%)
Taxpayer 2 has to pay a surcharge of $650 ($65,000 x 1%)

Note: Ancillary cover, which is cover for additional treatments(eg. physiotherapy), does not avoid the surcharge. It must be hospital cover.

Where the required private patient hospital cover is held for only part of the financial year, then the amount of the surcharge payable by the taxpayer is a proportion of the annual surcharge based on the period for which the cover was **not** held.

This example was relevant for the 2014/15 financial year.

Dependants for Medicare levy surcharge purposes

For the purposes of the Medicare levy surcharge, the term dependant has a slightly different definition to that which applies when calculating the basic levy. For surcharge purposes, the following are considered to be dependants of the taxpayer and must therefore be covered by private patient hospital cover for the taxpayer to avoid the surcharge:

- a spouse of the taxpayer (except an ex-spouse)
- a child less than 21 years to whose maintenance the taxpayer contributes (regardless of the child's income)
- a child aged between 16 and 25 years and who is in receipt of full-time education and is maintained by the taxpayer (regardless of the child's income).

Private Patient Hospital Cover

Where a taxpayer's private patient hospital cover was taken out on or after 25 May 2000 and the policy provides for an excess to be paid by the taxpayer in the event of a claim, it will not exempt the taxpayer from the surcharge if the specified excess is more than $500 in the case of a single policy or $1,000 in the case of family cover. The same applies to an insurance policy for hospital cover with a high front-end deductible or excess taken out before 24 May 2000 that ceased to provide continuous cover after that date. Policies under which such an excess was already in place before 25 May 2000 may still be counted for exemption from the surcharge.

Non-Residents and Visitors

The Medicare levy is only payable by persons who are classified as residents of Australia for tax purposes. A person who was a non-resident for all of the financial year would not be liable to pay the levy even if required to pay income tax due to having income from sources within Australia.

Exemptions from the Medicare levy surcharge

If the taxpayer is a prescribed person or is covered by private patient hospital cover then they are not liable for the surcharge. Should the taxpayer or any of the taxpayer's dependents not be a prescribed person and not have private patient hospital cover, then the taxpayer is subject to the full surcharge. There is no half exemption available like there could be with the basic levy.

Adjustments

Item A1 - Under 18

Special rules apply to the income of minors (persons who are under the age of 18). Under these rules, certain types of income received by minors may be taxed at higher rates. However, minors who are residents of Australia do not have to lodge a tax return if they earn less than $416.

Tutor notes: The rules were introduced to discourage adults from splitting their income and diverting it to their children.

Excepted Person

Minors will be exempt from the special rules if they were:

- Working full-time, or had worked full-time for 3 months or more (ignoring any full-time work that was followed by full-time study) intending to work full-time for most or all of the following income tax year not intending to study full-time in the following financial year.
- Entitled to a disability support pension or rehabilitation allowance, or someone was entitled to a carer allowance for them
- Permanently blind, disabled and were likely to suffer from the disability permanently
- Entitled to a double orphan pension, or
- Unable to work full-time because of a permanent mental or physical disability.

Ordinary rates of tax apply to **all** of the income of an excepted person (minor who is exempt).
The return should be marked $0 at J, and the code **A** added for an exempt minor.

Excepted Income

Not all types of income received by minors is covered by the special rules. Ordinary rates of tax apply to income (called excepted income or 'good' income), which includes:

- Employment income
- Taxable pensions or payments for Centrelink or the Dept. of Veteran Affairs
- Compensation, superannuation or pension fund benefits
- Income from a deceased person's estate
- Income from a partnership in which they were an active partnership
- Net capital gains from the disposal of any property or investments listed above, and
- Income from the investments of any of the amounts listed above.

The income should be added and put at J with the code **M**.

All other income is taxed at higher rates.
If the minor:

- Only has excepted income (part-time employment) - taxed at ordinary rates
- Has some excepted income, and some other income (such as a family trust distribution) - excepted income taxed at ordinary rates, other income taxed at higher rates
- Only has other income (such as family trust distribution) - taxed at higher rates.

Tutor notes: Deductions are allowable as per normal deductibility rules for each type of income.

Codes required at A1

A	The taxpayer should be treated as an adult because they are exempt from the normal system of taxing minors (excepted person)
M	Other 'good' income (excepted income).

Item A2 - Part-year Tax-free threshold

The full tax-free threshold is not available in a financial year in which a taxpayer is not a resident for the full year. This item needs to be completed to allow for a proportion of the tax-free threshold to be applied to the amount of income earned in relation to the amount of time actually spent in Australia (regardless of whether all of that time was spent earning income).

The following formula is used to determine the level of tax-free threshold a part-year resident has access to:

$13,464 + (($4,736 x number of months as a resident of Australia)
Divided by the number of months in the year (12))

Always count the first month that an individual became, or stopped being, an Australian resident. If someone arrived in November and remained in Australia for the rest of the financial year, the number of months they were a resident of Australia for would be 8 months.

Tutor notes: There is no longer a requirement for those ceasing full-time education to complete this item. They are now entitled to the full year tax-free threshold.

Item A3 - Super co-contribution

There is no absolute requirement for the average taxpayer to complete this item - the ATO will be able to match data using the rest of the return. As this item can be very complex and has been designed to assist self-employed taxpayers that make personal superannuation contributions or those who earn a considerable amount through investments, we will not cover this item in detail and the following is for general information only. For those who wish to learn more, please see the ATO website.

The superannuation co-contribution scheme by the Government assists eligible individuals to boost their future superannuation savings by giving them an additional payment according to the level of the individuals personal contributions. The maximum amount payable is $500.

The super co-contribution is not taxed when paid, is not assessable income for tax purposes and is preserved in the fund to which it is paid.
Individuals will be eligible for the super co-contribution if **ALL** of the following apply:

- they make personal super contributions by June 30 and don't claim a tax deduction for them
- their total income less deductions is less than the maximum threshold
- 10% or more of their income is from eligible employment or carrying on a business
- they are less than 71 years old
- they are not a temporary visa holder (unless a NZ citizen or prescribed visa holder), and;
- they lodge a tax return for the relevant year

The maximum amount of superannuation co contribution from the Australian Government is $500 if your income is $35,454 (2015-16) or less. This $500 amount shades out and pro ratas between the lower threshold of $35,454 (2015-16) and the upper threshold of $50,454 (2015-16). Any amount over $50,454 (2015-16) receives no co contribution payment.

Completing the return at A3

F - The total of interest, dividend, foreign source and rental income is added (before deductions). If the income was earned as a single taxpayer then no deductions are allowed on this sum. If the income is earned as a joint taxpayer then the deduction allowed is the lesser of the income received from that joint interest or the deductions relevant.

G - This refers to employment and business income that has not been put at **Items 1,2,3,4,12, IT1, IT2, P1** or **P8**. It does not include losses.

H - This refers to deductions that have not already been claimed at **Item P8**.

HECS, HECS-HELP or SFSS

These are student financial assistance programs which are loans from the government to pay for government assisted places in tertiary education. They are common for university students and often exceed $40,000. They are repaid through the tax system with differing repayment rates dependant on the taxpayer's income but often are not payable until the taxpayer's income reaches a certain level.

Taxpayer's with a HECS debt receive an annual statement at the end of the financial year showing the balance owing. Alternatively, it can be found on the ATO portal and the ATO pre-filling report.

If a student earns less than $53,345 in the 2014-15 financial year ($54,126 in the 2015-16 financial year), they will not be obligated to make any HELP debt repayments.

The presence of a HELP debt can greatly affect the outcome of a return.

Income Tests IT1 - IT7

IT1 Total Reportable Fringe Benefits Amounts

Benefits provided in respect of employment will be included as fringe benefits provided to the employee. This amount is known as your **reportable fringe benefits amount**.

If the value of certain fringe benefits provided to the taxpayer or associate exceeds $2,000 in a FBT year (1 April to 31 March), the employer must record the grossed-up taxable value of those benefits on the payment summary for the corresponding income year (1 July to 30 June).
As the taxpayer does not pay income tax on fringe benefits, the grossed-up taxable value of a benefit reflects the gross salary that would have to be earned to purchase the benefit from after-tax dollars. The grossed-up taxable value is reported to ensure the value of the benefits is consistent with other forms of income on the payment summary.

Even though a reportable fringe benefits amount is included on the payment summary, it is not included in the total income or loss amount and income tax and Medicare levy are not paid on it. It is, however, included in a number of income tests relating to certain government benefits and obligations.

Categories included in the Reportable Fringe Benefits amount include

- Car fringe benefit
- Loan fringe benefits
- Debt waiver fringe benefits
- Expense payment fringe benefits
- Housing fringe benefits
- Board fringe benefits

- Airline transport fringe benefits
- Living-away-from-home allowance fringe benefits
- Property fringe benefits
- Entertainment benefits
- Car parking fringe benefits
- Residual fringe benefits

Amounts excluded from Reportable Fringe Benefits (**Non- Reportable**) include:

- **Meal entertainment** This covers all meal entertainment provided to employees.
- **Car parking expenses** - in relation to car parking are not excluded benefits.
- **Entertainment facility leasing expenses** - These are recreation expenses that involve the hire or lease of a corporate box, a boat, plane or other premises or facilities to provide entertainment. Recreation expenses that do not qualify (e.g., tickets to a sporting event) are not excluded benefits and may need to be reported on an employee's payment summary.
- **Remote area benefits -** This basically includes benefits relating to remote area housing assistance, residential fuel, occasional travel to major population area and freight costs for foodstuffs.
- **Emergency overseas health care** This covers a payment (or reimbursement) for an emergency or other health care service (not covered under Medicare) provided to a resident employee (or associate) while engaged in overseas employment.
- **Overseas living allowance** -This covers employees engaged in overseas employment who receive a Commonwealth allowance to compensate them for additional expenses.
- **Benefits to Australian Defence Force members** - including housing and rental assistance, reunion travel, education assistance for children in critical years of schooling, removal and travel assistance upon marriage breakdown and storage of household effects when directed to move.
- **Car benefit to emergency services -** a car driven by an employee between work and home that is visibly marked as a police car, an ambulance or a fire-fighting vehicle and is fitted with a siren and flashing light.
- **Private use of unmarked police car** - the use of an unmarked police car by an employee of a police service for travel between home and work, where the employee is on call.
- **Police officers – other benefits** - the removal or storage of household effects and costs incidental to the purchase of a new dwelling of police officers directed to move for work purposes, housing benefits relating to housing attached to a police station, and certain housing rent that is an expense payment benefit.

An employer only needs to show a fringe benefits amount on the employee's payment summary if the taxable value of certain benefits exceeds $2,000. All reportable benefits are then "grossed-up" using a FBT "gross-up" factor equal to the highest marginal rate of tax plus the Medicare levy, (1.8868 ending 31 March 2015)).

Based on this gross-up rate, the minimum reportable fringe benefits amount that should be recorded on an employee's payment summary is $3,773 (i.e., $2,000 x 1.8868). Therefore, if a reportable fringe benefits amount of less than $3,773 is recorded on the payment summary, the employee should check the calculation with their employer.

IT2 Reportable Employer Superannuation Contributions

Reportable employer super contributions are salary sacrificed super contributions or other contributions your employer makes to a super fund on behalf of an employee. These are ***additional to the minimum contributions*** they must make under an industrial agreement or the super guarantee.

The amount should be listed on the taxpayer's payment summary.

Note: Employers can complete this item incorrectly. It should be confirmed with the client that these are additional payments. It is possible to do a quick calculation (9.5% of income) to confirm that it is not the super guarantee.

IT3 Tax-free Government pensions

Although tax-free pensions are not included in the calculation of taxable income, they are included here for the purpose of calculating a taxpayer's Adjusted Taxable Income. See Lesson 2 notes for an example of tax-free pensions. Do not include any of the pensions or allowances that were put at **Items 5** or **6** on the return.

IT4 Target Foreign Income

Target Foreign Income is income received from sources outside of Australia (in Australian dollars), that has not already been included as assessable income or is received as a fringe benefit. Examples include:

- Gifts or allowances from a foreign source on a regular basis, including from relatives
- An overseas pension or allowance that is not assessable income
- Income received by Australian residents employed overseas that is classed as non-assessable income (exempt income shown at **N** - **Item 20**)
- Income from foreign business interests and investments that are exempt from Australian tax
- Foreign income received whilst a temporary resident that is exempt from Australian tax.

IT5 Net Financial Investment Loss

Any losses as a result of financial investments from shares, managed investment schemes, distributions from a partnership that had income or losses from any investments or similar need to be shown at this item.

It does not include rental property losses, capital gains or losses, or interest from everyday bank accounts.

All investment income (before deductions) is added together. Any relevant deductions are then applied. If the remaining amount is a negative, it is written at '**X**', otherwise the box is left blank.

IT6 Net Rental Property Loss

Any losses attributed to rental property owned (Australian or overseas) need to be shown here. The net rental amounts from **R** at **Item 20**, or **Item 21** and the taxpayer's share of any net rental income or loss from a partnership are added together. Any deductions relating to a low-value pool from **Items D6** or **P8** are subtracted and if the result is negative (ie. a loss), the amount is shown at '**Y**'.

IT7 Child Support Paid

The total amounts of child support the taxpayer paid to another person for the maintenance of a child are added together and put at '**Z**'.

Calculation of refund due or balance payable

Once the taxpayer's income tax payable is calculated based on the taxable income, the amount of any tax offsets to which the taxpayer is entitled should be subtracted. Tax offsets will be covered next lesson.

The remaining tax liability after tax offsets is referred to as net tax. Medicare levy and any HECS or HECS-HELP or SFSS repayments is then added to this net tax. The total is then compared to the amount of :

- any tax which has been withheld under the PAYG withholding system,
- any tax which has been withheld due to not supplying a tax file number, and
- any other credits to which the taxpayer is entitled.

If the net tax is less than the tax instalments, then the taxpayer will receive a refund of the difference. If the net tax and levy is more than the tax already paid, then the taxpayer will have to pay the difference as the balance owing to the ATO. The ATO has arrangements in place to enable taxpayers to enter an instalment paying arrangement system should it be necessary.

Example 7: Betty is a taxpayer who has $52,000 in salary income. She has $2,435 in allowable deductions and $50 in interest income. Her PAYG instalments come to $16,000. Ignoring any offsets or rebates, calculate Betty's tax refund or liability. She has private hospital cover.

Note: This example is a simple calculation and does not include things such as the Low Income Tax Offset.

Answer:	Taxable income	= assessable income - deductions
		= $52,050 - $2,435
		= $ 49,615
	Tax payable	= [($49,615 - $37,000) x 32.5%] + $3,572
		= ($12,615 x .325) + $3,572
		= $4,099.875 + $3,572
		= $7,671.875
	Medicare levy	= $49,615 x 2%
		= $992.30
	Total tax payable	= $992.30 + $7,671.875
		= $8664.17
	Less PAYG inst	= $8664.17 - 16,000
	REFUND	= <u>$7335.83</u>

This refund would be slightly higher with the inclusion of the Low Income Tax Offset. More on this in Lesson 7.

ATO data matching

The ATO is able to match data with a number of agencies who declare information on income paid to individuals including employment income, government benefits, interest and dividend income, health insurance premiums, managed funds income, ETP and superannuation lump sum payments and any spouse or children declared as at the previous financial year. This information is utilised in the E-tax facility.