



Present...What The Tax?!

New to Working & Tax Returns? – We’ve got you!

When you get your first job, you need to apply for and provide your employer with a Tax File Number (TFN). Getting that TFN means you are now part of the Australian Income Tax System. Welcome! But what does this actually mean, and what are your legal obligations? Hopefully we can answer these questions for you.

Important Disclaimer

Australian tax legislation contains specific anti-avoidance provisions which target schemes entered into with the dominant purpose of tax avoidance. It is essential that you consider your specific circumstances before proceeding with any tax planning ideas to ensure these rules do not apply. While legally minimising tax should always be a consideration, it should not be the main driver in any transaction.

The tax planning ideas presented to you today and contained in this summary are of general nature only and have been provided to assist you as business owners with some general ideas in relation to your tax affairs. The ideas should not be relied upon without seeking professional advice in relation to your own circumstances.



Australian Income Tax System – The Basics

The Australian tax system is incredibly complex, but very briefly here is the low down. The Federal Government collects income tax from anyone earning money in Australia. Income tax is paid on all forms of income which can include:

- Employment income such as a salary or wages, allowances, bonuses and tips.
- Centrelink and other government payments such as Jobseeker, Newstart, youth allowance or carer payments.
- Investment income such as bank interest, share dividends and rent income
- Business income
- Profits on the sale of investment assets such as shares or properties.

This income tax is collected via the process of every income earner submitting an Income Tax Return each year. The Government then use these funds they have collected to pay for programs such as Social Security, Medicare (which is the government funded health system) and our National Defence.

It is important to note that when accountants talk about a year, we are talking about a Financial Year which runs from the 1st of July to the 30th of June.



How much tax will I have to pay?

We have a 'progressive tax system' in Australia, which means the more income you earn, the higher the rate of tax is that you pay. Each individual person can earn income of up to \$18,200 each financial year without paying any income tax, this is called the tax-free threshold. Once your income is more than \$18,200, you will most likely have to pay some tax. Once you pass the tax-free threshold, the lowest tax rate is 19% and the highest is 47%. Most people in Australia pay tax at a rate somewhere in between.

CURRENT RESIDENT TAX RATE BRACKETS IN AUSTRALIA (2020-21)

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

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

On top of income tax, Australians may also pay a **Medicare Levy**. This is an additional charge of 2% of taxable income that helps fund the costs of Australia's public health system. Low income earners (income below \$23,226) are exempt from the Medicare Levy.

Those workers who have a **HELP debt** from their Tertiary education may also have **compulsory repayments** added to their income tax. Once you start earning more than a designated threshold (\$46,620 for the 2020/21 year) a repayment amount will be added to your total tax payable. The more you earn, the higher your repayment rate, which ranges from 1% up to 10% (if you earn over \$136,740). IT is important to let your employer know you have a HELP debt, this is usually done when you start a job using the TFN Declaration form.



So, how do I pay income tax?

If you have a job, your employer will automatically withhold income tax from your wage or salary and pay it directly to the Australian Taxation Office (ATO). The amount you receive in your bank account every payday is your wage 'after tax' or 'net' payment.

If you have other forms of income like bank interest, share dividends or a business profit, you have to keep money aside to pay for the income tax yourself.

Australian taxpayers need to lodge an income tax return each year with the ATO. Your tax return records all your income for the financial year and helps you work out how much tax you should have paid on this income. If you have a job, your employer will usually have already paid enough tax on your behalf during the year, so you won't owe any more tax. Quite often, in fact, you'll have paid a little bit too much tax and you'll be eligible for a tax refund. If you earn income besides your pay from your job, or if none of your income is from employment, it's most likely you'll have to pay tax if you are over the tax-free threshold.



Do I have to lodge a tax return?

If you answer yes to any of the below, you will need to lodge an income tax return:

- Did your income from working plus all investments exceed the \$18,200 tax-free threshold for the income year?
- Was your income less than \$18,200 but your employer has tax withheld from that income?
- Did you carry on a business?

Note: once you lodge your first tax return, you will need to either lodge a tax return each year or let the ATO know that you don't need to lodge in future years.

If you haven't lodged a tax return before, or you're not really sure what to claim, tax time can be a little daunting. Hopefully this session helps you prepare yourself and gives you some tips to help you get the biggest refund possible, while making the whole process as easy as possible!



When do I need to do my tax return?

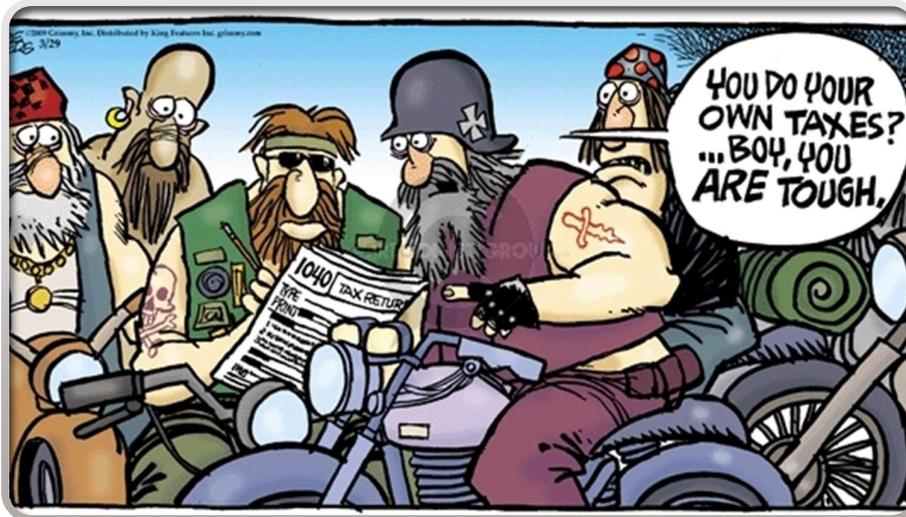
You need to lodge your income tax return after the end of each financial year (30th of June) but no later than the 31st of October deadline each year if you lodge it yourself using myTax online. Usually, it is best to wait until the end of July to lodge your tax return so that the ATO has time to gather all the information it needs.

If you lodge your tax return through a registered tax agent/accountant then you will usually be allowed longer to lodge your tax return, provided you engage them before the 31st of October.



Is lodging an income tax return complicated?

Everybody's tax return is different! It can be quite easy to do it yourself using the myTax website, which is free. You just need a myGov account which is linked to the ATO. It can also be complicated or overwhelming for some, and that's why many people choose to use a registered tax agent. Getting an accountant to help you can take the stress out of lodging your tax return and makes sure it is correct and you are claiming everything you are entitled to.



So what do I need to prepare my income tax return?

To work out your income tax you need to calculate your Assessable Income and your tax return helps you do this.

The formula to calculate your Assessable Income is:

$$\text{Taxable Income less Deductions} = \text{Assessable Income}$$

We have broken down what Taxable Income and Deductions are below.

Taxable Income – What information do I need?

You need to declare **all the income** you received each year on your annual tax return. Here's a quick checklist of the most common items to pull together:

- **Wages/Salary** – your total employment income earned for the financial year and tax withheld by your employer can be found on your Income Statement (previously called a payment summary or group certificate). You can find your Income Statement on your MyGov account under 'income summary', or it can be accessed by an accountant on your behalf.

- **Interest on any savings bank account** – will be available in myTax or to your accountant, provided your bank has your TFN. If not you will need your bank statements.
- **Income from any shares you own such as dividends** - will be available in myTax or to your accountant, provided your share trading account has your TFN. If not you will need your dividend statements.
- **Rent you received** from renting out a house or room privately – you need to have your own summary of income received and related expenses.
- **Business income** (including things like Uber, AirBnB, UberEats) - you need to have your own summary of income earned and related expenses.
- Any other form of income that you received.

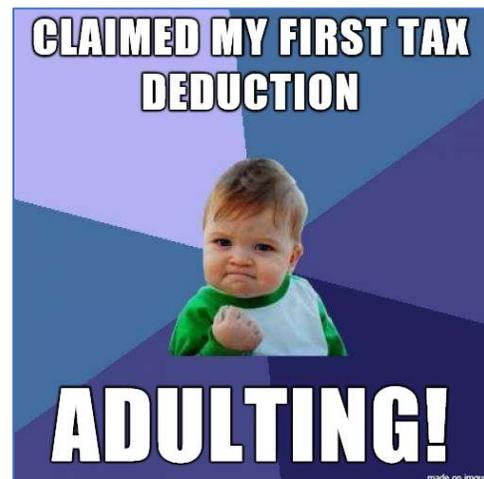
Deductions – what are these??

Deductions reduce your taxable income and mean you pay less tax (hooray). You are entitled to claim a tax deduction for some expenses you have paid during the year. The main tax deductions are costs that relate directly to your income, there are also some other things that can be claimed such as:

- Donations to registered charities
- Income protection insurance
- Superannuation contributions
- Prior year tax agent fees

To claim a deduction for work-related expenses:

1. you must have spent the money yourself and not been reimbursed
2. it must be directly related to earning your income
3. you must have a record to prove you paid for it.



Some common work-related expenses that can be claimed as tax deductions

- Union fees
- Uniforms – purchase and laundry (must have a registered logo)
- Protective clothing – purchase and laundry (such as high-vis clothing, aprons, gloves, steel cap boots, sun protection)
- Professional membership/association fees
- Stationery
- Tools/equipment (power tools, work bags, stationery, software, materials etc.)
- Seminars/professional development
- Work related training expenses (course fees, equipment, travel costs, accommodation, and meals, if you are required to stay away from home for the duration)
- Work related phone expenses (work use proportion only, keep a diary)
- Laptop expenses (work use proportion only)
- Work related home internet use (work use proportion only, keep a diary)

- Home office costs – generally a cents per hour claim
- Travel expenses for work trips.
- Work related use of your car if you:
 - Used your car as part of your job or to transport supplies or equipment for your boss
 - Travelled between venues, to training courses or work-related events. *Note that driving from home to work and back is considered private and not claimable.*
- Subscriptions for work related magazines, journals or resources used for your job.

What about the costs of studying? Are they deductible?

These are known as self-education costs. It's important to note that you can only claim deductions for these expenses if the course you are studying relates directly to your current job. For example, an Accountant studying a Bachelor Degree in Accounting could likely claim, but a Retail Worker studying to become a Teacher could not.

Common tax deductions for students include:

- Course/tuition fees (not including HECS/HELP).
- Stationery and textbooks.
- Student service fees.
- Union fees.
- Amenity fees.
- Equipment depreciation and repairs (e.g. laptops computer, printer, etc.).

Some expenses that you can never claim a deduction for:

Not all expenses in relation to work are deductible, and some are expressly denied by the ATO.

- Conventional clothing worn to work. Clothing **MUST** be a uniform with a registered logo or be protective to be deductible. Items **NOT** deductible include:
 - Sneakers for a PE Teacher
 - A suit for a Lawyer
 - Black pants for a restaurant wait staff.
- Personal grooming such as haircut, make up costs
- Reading glasses
- Medical expenses
- Food and drink – even if meeting with colleagues or clients.
- Driving/travelling to and from work
- Fines (for example parking fines or speeding fines)
- Costs of attending social functions, galas and dinners
- Child care
- Drivers licence renewal – even if you drive for work
- Newspapers

Keep your receipts!

You must have evidence of your expenses to claim a tax deduction. Always make sure you keep receipts throughout the year. Receipts fade so consider taking photos of your receipts. This is also a good way to ensure you're not forgetting those smaller expenses come tax time.

This presentation has been very basic and does not cover all you may need to know about income tax. If you would ever like more detailed advice, tailored to your circumstances, we would be happy to book you in for an appointment at our office. Our contact details are as follows:



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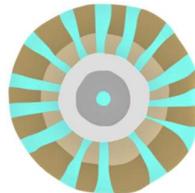
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